Douglas E. Bowers
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For this issue:
Rick Reeder
Issue Editor

Brenda Powell
Managing Editor

Anne E. Pearl
Layout and Production and Cover Design

Samuel D. Calhoun
Graphic Assistance

Cover photo:
Jack Harrison, USDA/ERS

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Rural Conditions and Trends

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Changing Regulatory and Trade Climate May Enhance Rural Economic Growth and Environmental Sustainability

Federal assistance is increasing for telecommunications and housing, while several new initiatives, including the New Markets and Livable Communities initiatives, are beginning to take hold. Some important regulatory changes are in store for financial institutions, telecommunications, transportation, and other big businesses, and for the environment. Meanwhile, recent trade agreements are leading toward an increasingly competitive global economy, increasing the importance of trade adjustment assistance.

The biggest stories for rural development policy at the end of the century involve regulatory and trade policy. Federal programs have undergone some important changes, and several new initiatives are beginning to have an impact on rural development. This issue of *Rural Conditions and Trends* (*RCaT*) examines these and other Federal policy changes during 1999 and early 2000, focusing on their potential implications for rural development. It includes special articles on financial reform legislation, trade adjustments, and the New Markets and Livable Communities initiatives.

Other articles cover regulatory policy and changes in development programs (infrastructure, business, housing, and general assistance). For the largest programs, we provide funding totals for 1999 and 2000, and indicate percentage change from 1999 to 2000 (fiscal years unless otherwise indicated). We also identify the region and type of rural county or State that is most likely to be affected by each program, using 1998 census data on the geographic distribution of Federal programs. A summary table showing the rural share of funding for each of the major programs is provided in appendix A. Data and definitions used in this report are explained in appendix B.

This will be the last issue of *RCaT* that will cover Federal policy changes, since *RCaT* is scheduled to merge with ERS's *Rural America* later this year. However, Federal policy changes will continue to be covered in special articles in *Rural America* (which evolved from *Rural Development Perspectives*). In addition, maps, charts, tables, and data on Federal programs will be provided on ERS's web site: <http://www.ers.usda.gov>.

Both Congress and Executive Branch Make Important Changes

Congress made an important development-related change with its overhaul of the laws governing financial institutions. Congress has also continued to provide emergency agricultural assistance to distressed farmers. As of this writing, Congress is nearing completion of supplemental funding legislation that could add more emergency farm assistance and other forms of development-related assistance for 2000. Even in the absence of additional emergency appropriations, with total farm payments projected to decline from $21 billion in 1999 to $16 billion in 2000 (calendar year), farm aid remains above the levels of the early and mid-1990's. This should continue to ease the adjustment to lower farm prices and higher interest rates for distressed farm-based economies, as in the northern Great Plains.

The executive branch made several important changes. These include: (1) continuing efforts to liberalize trade, which could lead to further expansion of trade as well as some adjustments for selected rural industries; (2) legal and regulatory actions to maintain a competitive economy and sustain the environment and natural amenities; and (3) continued support for various development-related initiatives, such as those encompassed within the New Markets and Livable Communities initiatives.

Both Congress and the executive branch moved to provide more funding for telecommunications. For example, Congress provided some important funding increases for telecommunications programs in 2000. It was regulatory agency—the Federal Communications Commission (FCC)—that precipitated the largest increase in telecommunications funding by significantly increasing the amount of money to be provided by telecommunications companies to assist rural schools, libraries, and health care providers. However, this change was initially made possible by the telecommunications legislation enacted by Congress in 1996.

1999 Act Promises To Improve Credit and Other Financial Services

The Grahm-Leach-Bliley Act of 1999 allows banks, securities firms, and insurance companies to merge, which could enable consumers to one-stop shop for a variety of financial services. Although some fear this may result in a few large conglomerates muscling out smaller community banks in rural areas, this legislation allows community banks to enter joint ventures with other banks and thrifts to more competitively provide services and offer a wider range of products to their customers.

The act extends the Community Reinvestment Act (CRA) provisions to cover depository institutions owned by the new financial holding companies. For mergers to be approved, these companies must demonstrate that their existing bank affiliates serve all segments in their markets (including poor neighborhoods). Thus, these companies may have additional incentive to invest in distressed, underserved rural areas. The period between CRA examinations was lengthened for most small banks to reduce reporting costs.

The financial overhaul also allows more rural banks access to the Federal Home Loan Bank (FHLB) System. While this should benefit rural borrowers seeking long-term funds for housing, agriculture, and small business loans, depositors at these rural banks may receive lower interest earnings since the infusion of FHLB capital may reduce the banks' need for deposits, and hence, reduce the interest they are willing to pay on deposit accounts.

Trade Liberalization

Recent efforts to liberalize trade relations have helped to further economic growth and prosperity. In this report, we examine various aspects of these trade agreements and how they may have affected the textile and apparel industry and other trade-sensitive industries important to rural economies. This article also examines Federal programs that assist industries and workers undergoing change resulting from increased foreign competition.

New Markets and Livable Communities Initiatives

Whereas trade liberalization focuses on developing overseas markets, the President's "New Markets" tours in 1999 publicized the benefits to large corporations investing in underserved domestic markets. This strategy can bring more economic equity to distressed urban and rural areas and also improve overall U.S. economic efficiency by tapping underutilized resources at a time when such resources are scarce in the U.S. economy.

Several recent Federal programs and initiatives already provide incentives for private investment in distressed rural areas. These include the Empowerment Zone/Enterprise Community (EZ/EC) program, the Community Development Financial Institutions (CDFI) Fund, the Community Adjustment and Investment Program (CAIP) assisting areas impacted by the North American Free Trade Agreement (NAFTA), and a new and improved Small Business Investment Companies (SBIC) program that targets venture capital to low- and moderate-income areas, and several other small business initiatives such as BusinessLinc, which provides new forms of technical assistance.

Outside of distressed areas, much of the country has been participating in the longest economic expansion on record. With increasing economic well-being, rural development policy is turning to noneconomic, quality-of-life issues. The Livable Communities (or Livability) Initiative addresses issues from safe streets to community schools to cultural heritage. However, it is particularly concerned with sustainable development, protecting the environment and natural amenities, and stemming growth-related problems.

As with the New Markets Initiative, the Clinton administration has proposed various programs to address these Livability issues. Congress increased funding in 2000 for Federal land acquisition and conservation, which should help preserve natural amenities vital to nearby rural communities and their development. The 1998 transportation legislation increased funding for scenic highways, recreational trails, and bicycle/pedestrian walkways. The 1998 legislation also increased funding for public transit and created a new pilot program that promotes smart growth through research-based policies to improve transportation system efficiency, reduce environmental impacts, and reduce the need for costly public infrastructure investments.

General Assistance Initiatives Thrive, and Telecommunications, Housing, and Technical Assistance Increase

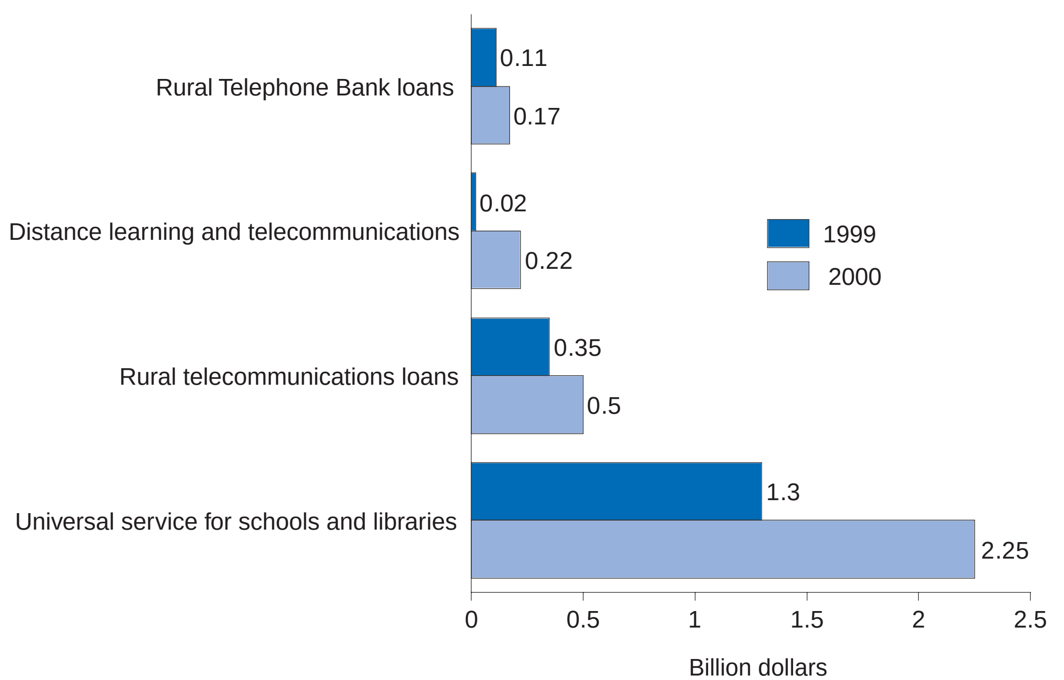
General assistance programs, which provide flexible funding for a variety of development functions, changed little from 1999 to 2000. This in itself is significant because it means that several new programs begun in 1999, including the Housing and Rural Economic Development program at the Department of Housing and Urban Development and the Denali Commission serving rural Alaska, have been continued and benefit from another year of funding. In addition, USDA has a new Rural Community Development Initiative that provides capacity-building grants to private, nonprofit organizations and low-income communities to support housing, community facilities, and community/economic development. Congress enabled USDA's on-again, off-again Fund For Rural America to spend another $60 million in 2000: $40 million for rural development activities and $20 million for extension activities. Meanwhile, several interagency initiatives continue to move forward, including two regional initiatives (Mississippi Delta and Southwest Border), the Brownfields Partnership, a new Hazard Mitigation Partnership, and a new rural initiative involving the Transportation Department.

The increase in telecommunications funding is the big story in infrastructure programs this year (fig. 1). USDA's telecommunications loan program is projected to grow more than 40 percent, its Telephone Bank program over 50 percent. USDA's distance learning program is tripling its loan activity. In addition, the FCC proposed to increase the E-rate program that subsidizes Internet service to schools and libraries. USDA's Water and Waste Disposal program also got a boost in funding, as did USDA's Community Facilities

Figure 1

Funding for selected telecommunication programs, fiscal years 1999 and 2000

Telecommunications assistance grows in 2000



Source: USDA Budget Summary for Fiscal 2001; Federal Communications Commission.

program. The only concern for rural infrastructure was the temporary hold-up in the reauthorization of the Federal aviation programs, which temporarily cut off funding for airport improvements. However, legislation enacted in March 2000 reauthorized these programs, enabling funding to increase sharply for airport improvements over the next 3 years.

With the economy growing rapidly, most business loan programs are projecting higher loan levels. These programs are also emphasizing technical assistance and targeting more aid to distressed communities. Improved technical assistance is often necessary to provide more credit to distressed communities without subjecting government loan programs to excessively high risk. This technical assistance includes better monitoring of loans, mentoring of applicants, networking among providers, and Internet information dissemination.

Most housing programs will be funded at higher levels in 2000. This, with changes in recent years that promote transition from renting to homeownership, is leading to ever higher percentages of Americans owning their own homes. Other recent changes provide renters with more incentives to work and allow public housing authorities more flexibility to use housing funds to address local needs. USDA's housing programs have grown more than other programs in the last year. The 502 Single Family direct loan program is projected to grow about 20 percent in 2000, having received favorable reviews in a recent survey of program users.

With the veto of a major tax bill, the only significant tax legislation in 1999 was the Ticket to Work and the Work Incentives Improvement Act of 1999. This mostly extended expiring tax provisions, including the welfare-to-work tax credit and the work opportunity tax credit. Both provide tax credits to employers who hire workers from certain hard-to-place groups; these credits were extended through December 31, 2001. The act also increased the amount of qualified zone academy bonds that State and local governments can issue to finance improvements at qualifying public schools in empowerment zones and enterprise communities. Up to $400 million in such bonds can be issued annually in 2000 and 2001. A tax credit is provided to certain financial institutions that hold such bonds. Finally, the act allows nonrefundable tax credits to offset both the regular and alternative minimum tax, increasing the benefit that some taxpayers can receive from these credits.

Regulatory Policy To Enhance Economic Growth and Environmental Sustainability

In addition to their involvement in Congress's overhaul of the rules governing financial institutions, Federal regulatory agencies have been active in two areas particularly important to rural development: (1) maintaining economic competitiveness and (2) protecting the environment. To promote greater economic competition, the Justice Department and the Federal Trade Commission have entered into several high-profile lawsuits against Microsoft, British Petroleum and Atlantic Richfield Oil companies, and American Airlines. Other Federal regulatory agencies are scrutinizing proposed mergers in key industries such as telecommunications and railroads. Meanwhile, EPA has continued in its efforts to promote both clean air and water, and the Interior Department and the Forest Service continue to try to prevent excessive environmental deterioration on Federal lands.

Other significant regulatory changes involve the Farm Credit Administration, Freddie Mac and Fannie Mae, and welfare reform. The Farm Credit Administration changed its reporting rules for the Farm Credit System lenders to provide greater emphasis on young, small, and beginning borrowers. The Department of Housing and Urban Development proposed rule changes that would require two major housing finance entities, Freddie Mac and Fannie Mae, to increase their purchases of mortgages of minorities. The changes involving welfare reform would increase State flexibility in the use of Federal funds for welfare-to-work activities, while precluding States from providing different levels of benefits to long-time residents and newly arrived residents. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

Several New Initiatives Provide General Assistance

The main general assistance programs have changed little, though last year saw the creation of one new USDA program (the Rural Community Development Initiative program) and the revival of another (the Fund For Rural America). In addition, several new initiatives are adding to the resources available to rural communities for economic and community development activities.

General assistance programs provide for a range of economic development activities, rather than focusing on a particular function. One program may cover multiple functions. Alternatively, a series of related programs covering different functions may fall under the auspices of a larger general-purpose program offered by a single agency. General assistance programs may provide for planning and feasibility studies that link one function with others, or they may contribute to a comprehensive, local economic development plan. Programs providing comprehensive assistance are often targeted to distressed areas. These programs also often focus on regions and make use of regional planning organizations.

Major General Assistance Programs Change Little

The Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program funds a variety of activities in both urban and rural areas, including housing, infrastructure, and business assistance. New budget authority for this program rose slightly, from $4.75 billion in 1999 to $4.8 billion in 2000 (all years in this article are fiscal years, unless otherwise indicated). However, the amount provided to small towns and rural areas remains essentially unchanged at $1.27 billion (table 1). In 2000, rural localities in New York will begin getting their funding directly from the State. This leaves Hawaii as the only State in which rural localities get CDBG funds directly from the HUD's Small Cities Program. Elsewhere, States allocate CDBG funds to rural localities through HUD's State CDBG program.

HUD's section 108 program guarantees loans for a variety of community development purposes, such as for housing rehabilitation, public facilities, and large-scale business development projects. This is a largely demand-driven program that seldom approaches the legal limit of $1.3 billion per year, and no accurate estimate is possible at this time for the year 2000 guarantee level. However, the level of section 108 loan guarantees has been growing rapidly in recent years, rising from $189 million in 1997 to $432 million in 1999.

The Department of Agriculture (USDA) provides general development assistance through a variety of programs, including the extension activities of USDA's Cooperative State Research, Education, and Extension Service (CSREES). This agency provides research-based technical assistance that helps rural communities adopt a wide range of farm and nonfarm development strategies. Funding grew slightly from $418 million in 1999 to $424 million in 2000 for CSREES extension activities. CSREES receives another $486 million for research and education activities, plus $40 million for integrated (multifunctional) activities.

USDA's Rural Community Advancement Program (RCAP), with a total of $2.7 billion in program obligations (grants, loans, guarantees), is clearly one of the largest general assistance programs. RCAP was created in 1996 mainly as a tool to enhance the performance of many of USDA's established categorical rural development programs, including water and waste disposal loans and grants; solid waste management grants; community facility loans, guarantees, and grants; business and industry loans and guarantees; rural business opportunity grants; and rural business enterprise grants (fig. 1). RCAP defines some common rules for these programs, including guidelines for State-local input into fund allocation decisions, strategic planning, and better performance measurement, and it allows limited flexibility for transferring funds among established categorical programs. Since its 1994 reorganization, USDA has brought together its field staff for these programs into consolidated service centers. Since RCAP's individual program components are particularly important for rural development, this report examines them separately,

Table 1

Federal funding for selected general assistance programs by fiscal year[1]

Little change in funding for main general assistance programs

Program	1999 actual	2000 estimate	Change	Rural areas most affected by the program[2]
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.27	1.27	0	Small towns and rural areas in farm and poverty States
HUD section 108 loan guarantees	.43	—[3]	—[3]	Same as above
EDA adjustment assistance, includes economic and defense adjustment, planning, and technical assistance	.15	.14	-5[4]	Low-income areas, varies from year to year[5]
FEMA disaster relief[6]	4.40	—[3]	—[3]	Earthquake, storm, flood-prone areas
USDA extension activities	.42	.42	1	Small towns and rural areas
BIA Native American assistance programs	1.74	1.82	5	Indian reservations[7]

Note: HUD = U.S. Department of Housing and Urban Development; EDA = Economic Development Administration, U.S. Department of Commerce; FEMA = Federal Emergency Management Agency; USDA = U.S. Department of Agriculture; BIA = Bureau of Indian Affairs.

[1]Unless otherwise indicated, new budget authority is used for funding levels.

[2]See appendix for definitions of rural areas and States.

[3]The fiscal year 2000 amounts are impossible to estimate with any accuracy.

[4]Funding declined by $7 million in 2000; all of the decline was for defense adjustment.

[5]In fiscal year 1998, these programs provided the most assistance, per capita, to the most highly rural counties and those not adjacent to metro areas. Nonmetro areas got higher per capita payments in the South than in other regions, though per capita planning funds were highest in the nonmetro Midwest.

[6]FEMA funding amounts are for new obligations.

[7]See figure 2 for map showing where Bureau of Indian Affairs payments were highest in 1998.

Source: *Budget of the United States Government, Fiscal Year 2001*.

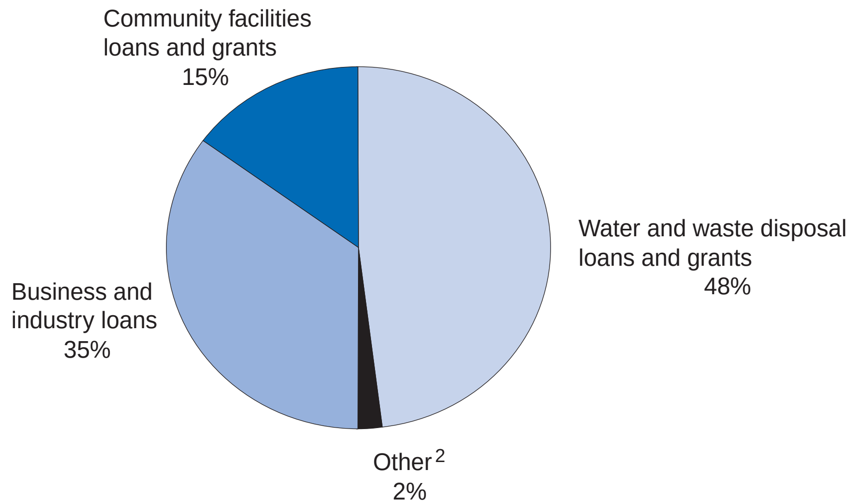
according to each program's function. Hence, most of RCAP's individual programs are covered elsewhere in this report.

The Department of Commerce's Economic Development Administration (EDA) provides comprehensive economic development assistance targeted to economically distressed areas, urban and rural. Three types of EDA assistance may be considered as general assistance: planning, technical assistance, and economic adjustment/defense conversion assistance. EDA also provides trade adjustment assistance (discussed in the Trade article) and public works assistance (discussed in the Infrastructure article). Funding for EDA planning grants and technical assistance is unchanged from 1999, at $24 million and $9 million, respectively. Funding for economic adjustment is also unchanged at $35 million. However, defense adjustment funding declines by about $7 million to $77 million in 2000. Thus, EDA's total funding for general assistance declines slightly, from $152 million to $145 million. Although both urban and rural areas benefit from this program, in 1998, rural areas received more than twice as much in per capita amounts, with highly rural areas and rural areas not adjacent to metro areas benefiting the most.

Figure 1

Rural Community Advancement Program by major components, fiscal year 2000[1]

Three programs account for 98 percent of the $2.7 billion in program activity



[1]Percentage shares are based on total of loans, loan guarantees, and grants (program level). Does not include amounts from Fund For Rural America.

[2]Other includes solid waste management grants, North American Development (NAD) bank loans, rural business opportunity grants, and rural business enterprise grants.

Source: USDA, FY2001 Budget Summary.

The Federal Emergency Management Agency (FEMA) disaster assistance program provides much of the aid to victims of Presidentially declared natural disasters, such as floods, earthquakes, and storms. This program offers three main types of assistance: individual and family assistance; public assistance, including repair and reconstruction of infrastructure; and hazard mitigation. In 1999, the program received $2.1 billion in new budget authority and obligated $4.4 billion in assistance. In May 1999, FEMA also received $1.6 billion in special supplemental funding for Hurricanes Mitch and Georges and for tornadoes in Oklahoma and Kansas. In 2000, the budget authority rises to $2.7 billion. So far, FEMA estimates that obligations will exceed $1.3 billion in 2000, but this figure will rise as disasters occur throughout the year.

The largest increase in general assistance funding in 2000 is for programs benefiting Native Americans. Funding for the Interior Department's Bureau of Indian Affairs (BIA) programs increases by about 5 percent, from $1.74 billion to $1.80 billion in 2000. This assistance tends to be focused where major Indian reservations are located, such as in the West and Great Plains States (fig. 2). Native Americans also benefit from a general assistance program operated by HUD—the Indian Community Block Grant program—funded at $67 million in 2000, up $2 million from 1999.

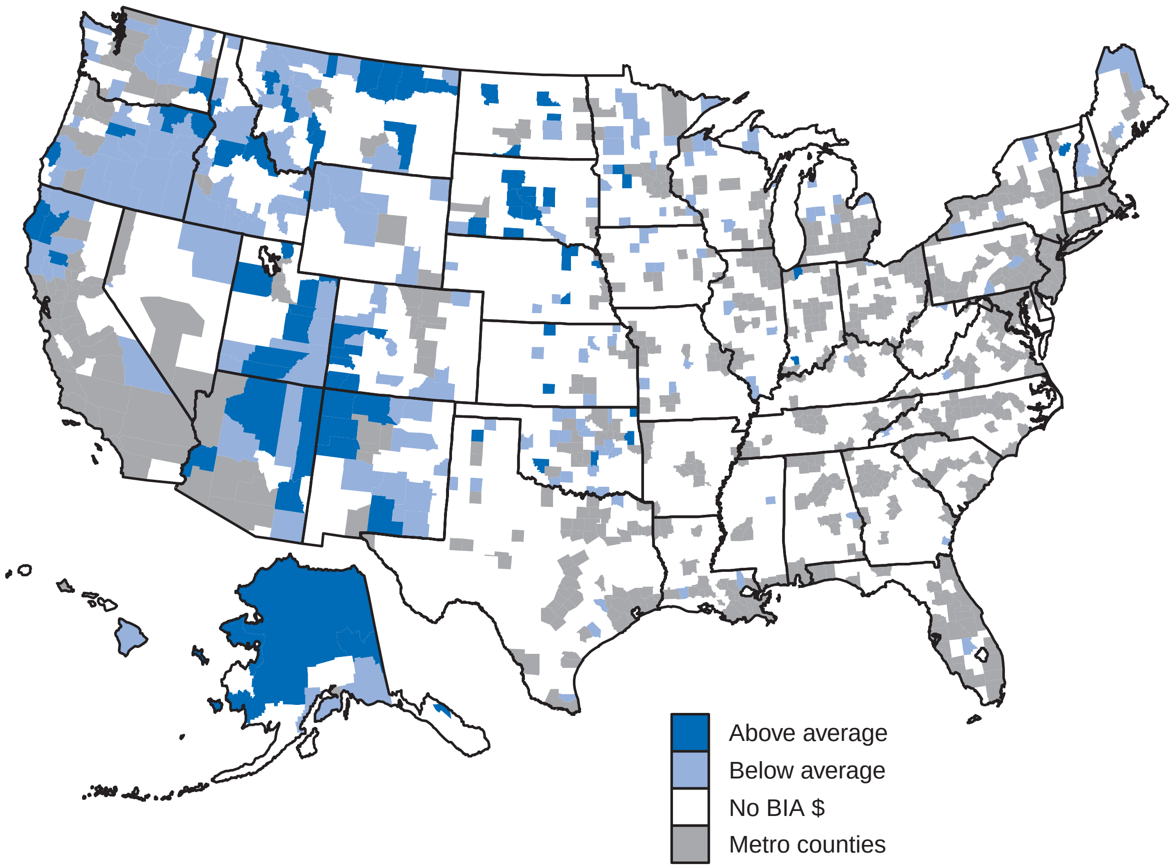
Most Smaller General Assistance Programs Also Continue Unabated

USDA has several small programs that provide general assistance. USDA's Forest Service helps natural-resource-dependent and persistent-poverty counties increase skills and capacity to manage change, including efforts to diversify economies, strengthen social infrastructure, and increase community participation in land stewardship activities. The Economic Recovery, Rural Development, and Forest Products Conservation and Recycling programs provide direct technical and financial assistance. Funding for these

Figure 2

Bureau of Indian Affairs programs, fiscal year 1998[1]

Per capita BIA assistance to Native Americans is highest in the West



[1]Excludes programs for which no accurate county data were available: most of these excluded programs involved law enforcement and conservation activities.

Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

programs has increased from $9.9 million in 1999 to $12.8 million in 2000. In 2000, $5.1 million was directed to regional initiatives.

USDA's Natural Resources Conservation Service administers the Resource Conservation and Development (RC&D) program, which provides assistance to 315 designated RC&D areas to address local environmental, economic, and social needs. The RC&D funding is unchanged, at $35 million in 2000.

USDA's Rural Business-Cooperative Service operates two small general assistance programs. Rural Economic Development Grants and Loans pay for feasibility studies, startup costs, business incubators, and other activities tied to USDA-Rural Development sponsored projects. Loans from this program are expected to remain at $15 million in 2000, though grants will drop from $11 million to $4 million. Meanwhile, the Rural Business Opportunity Grant program, enacted in 1996, finally received appropriations from Congress and is scheduled to provide its first $4 million in grants in 2000. This program provides for local planning and technical assistance for community economic development.

Several independent regional development authorities provide general economic development assistance. The Appalachian Regional Commission (ARC) provides a variety of assistance programs targeted to distressed areas in Appalachia. Federal funding for these

ARC nonhighway programs remains unchanged at $64 million in 2000. The Denali Commission, which began operating in 1999, will receive $20 million—the same as in 1999—to provide development assistance mostly to rural areas of Alaska. (Alaska also receives $16 million in 2000 from a separate category of EDA assistance.) Congress provided no funding for the Tennessee Valley Authority (TVA) nonpower programs, whereas these programs received $50 million in 1999. However, TVA will be allowed to use previously appropriated funds for its Land Between the Lakes project.

The Interior Department's payments in lieu of taxes, which increased last year by $5 million, will increase another $10 million in 2000, totaling $135 million. These payments go to areas (primarily in the West) that forgo local taxes on Federal lands within their jurisdictions.

HUD's Rural Housing and Economic Development grant program, created in 1999, received $25 million for 2000, the same as in 1999. This program supports innovative housing and economic development through grants to rural nonprofits, community development corporations, State development agencies, and Native American tribes. This is a highly competitive program. Last year, HUD received 750 applications and awarded only 91 grants.

RCDI: A New USDA Rural Development Program

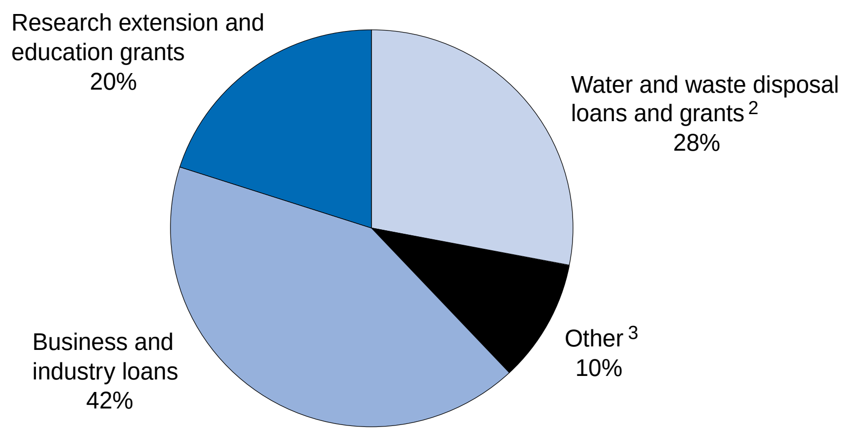
New this year is the Rural Community Development Initiative (RCDI), which received $6 million in funding for 2000 under the Rural Community Advancement Program. RCDI, which in some ways parallels HUD's recently created Rural Housing and Economic Development program, provides grants for capacity-building among private, nonprofit community development organizations and low-income rural communities in the areas of housing, community facilities, and community and economic development. Only qualified intermediary organizations, private and public, including Indian tribes, are eligible for the technical assistance grants. Such organizations must supply matching funds from non-Federal sources to receive the grants.

USDA's Fund For Rural America Is Revived

Although Congress prohibited it from using its funding authority in 1999, except to continue previously funded projects, USDA's Fund For Rural America was allowed to obligate $60 million of its 1999 money in 2000. Two-thirds of this money goes to rural development activities, while one-third goes to research, education, and extension grants. The Rural Utility Service's water and waste disposal grants receive $28 million of the $40 million in rural development funds (fig. 3). The remaining $12 million in rural development funds is allocated as follows: the Rural Housing Service receives $4.5 million, the Rural Business-Cooperative Service receives $2.3 million (including $1.3 million for the Business and Industry program), and Outreach for Socially Disadvantaged Farmers receives $5.2 million. However, the $1.3 million in funding for the Business and Industry program is projected to fund about $42 million in guaranteed loans—thus the total amount of assistance for rural development is about $100 million. These funds are in addition to the base funding amounts indicated elsewhere in this report.

The $20 million in new research, education, and extension grants has been allocated on a competitive basis to support five research centers: the Center for Minority Land and Community Security (Tuskeegee University), the Northeast Center for Food Entrepreneurship (Cornell University), the National Center for Manure and Animal Waste Management (led by North Carolina State University), the Consortium for Site-Specific Resource Management (led by the University of Minnesota), and the National Resource Center for Rural People in Forest Communities (led by the Forest Trust of Santa Fe, New Mexico).

Figure 3
Fund For Rural America by major components, fiscal year 2000[1]
Three programs account for 90 percent of the $100 million in program activity



[1] Percentages shown are based on total of loans, loan guarantees, and grants.
[2] Assumes all $28 million is used to provide grants. If some of this money is used for loans or guaranteed loans, the percentage share would be higher.
[3] Other includes Farm Labor Housing grants, Community Facilities grants, Rural Business Enterprise grants, and Outreach for Socially Disadvantaged Farmers.
Source: USDA, FY2001 Budget Summary.

Regional Initiatives

USDA's Office of Community Development (OCD) has contributed funding to several regional initiatives to help rural communities with common regionwide problems. Among the OCD's regional initiatives are the Mississippi delta, the Southwest Border, upper New York State, and an area in rural Vermont. OCD contributed to the recently published Department of Transportation (DOT) report, *The Mississippi Delta: Beyond 2000*, which describes the Delta region's needs and recommends changes. OCD also contributed to the Southwest Border Partnership, created in 1997, which resulted in an October 1998 Treasury Department report, *The Southwest Border Region: A Profile of the Regional Economy*. OCD has since participated in a working group developing options for the region, culminating in the Interagency Task Force on the Economic Development of the Southwest Border, which began public forums in the fall of 1999 to address that border's most pressing concerns.

Upper New York State has recently benefited from OCD's Rural Economic Area Partnership (REAP) pilot program, which assists rural communities suffering from outmigration, economic upheaval, and geographic isolation. USDA's agreements with the first two REAP zones—multicounty areas in North Dakota—will complete their 5-year designations in September 2000, but they expect to be extended beyond this date. Meanwhile, two new REAP zones in New York's Tioga and Sullivan Counties (and the town of Wawarsing) were established. REAP zones receive modest financial and technical assistance from USDA and other Federal agencies, as well as special consideration and preferences under regular Rural Development programs. Like EZ/EC's, they must conduct community-based, comprehensive, long-term strategic planning and report on their progress using OCD's performance benchmark and reporting system.

Other Initiatives

Related to the New Markets initiative (discussed later in this report) aimed at stimulating the economies of distressed, underserved areas, USDA's Empowerment Zone/Enterprise

Community (EZ/EC) program helps revitalize designated high-poverty rural areas through Federal tax incentives, grants, loans, and other forms of assistance. In 2000, USDA received additional grant funding ($15 million) for the second-round EZ's. From this new funding, each of the five second-round rural EZ's will receive $2 million for 2000, and each of the 20 second-round EC's will receive $250,000—the same amounts received in 1999. In addition to the EZ/EC grants, EZ/EC's draw on a variety of existing Federal and State programs for assistance. As of March 31, 2000, the first round of rural EZ/EC's had invested more than $950 million in community revitalization projects, and the first two rounds invested more than $1 billion combined. Only 12 percent of the money was derived from the grants received directly as a part of the EZ/EC program. Some of the EZ/EC's also qualify for tax incentives, and one of these incentives—the qualified zone academy bond—was enhanced by 1999 tax legislation, increasing the annual amount of such bonds to $400 million for 2000 and 2001. Champion Communities—those that applied and performed strategic planning but were not designated as first round EZ/EC's—also benefited from about $340 million in assistance from USDA's Rural Development programs. To continue to qualify for these benefits, many of these Champions recently had to meet new, tougher standards required for recertification.

The Community Development Financial Institution Fund (administered by the Treasury Department) also ties into the New Markets initiative, since it targets assistance to low-income areas. This program, which provides both technical and financial assistance through selected financial intermediaries, is funded at $96 million in 2000, about the same as in 1999. Legislation for this program, however, directed the CDFI to make a greater effort to assist rural States and report on its progress in the future.

USDA and other Federal agencies are also contributing to the Livable Communities initiative (discussed later in this report) through coordinated efforts to assist several pilot communities in planning strategies for sustainable development. Tioga County, New York, one of OCD's new REAP zones, is one of these pilot communities. Another is Owsley County, Kentucky.

Other relatively recent initiatives provide general development assistance that is consistent with objectives of the Livable Communities. For example, FEMA has joined with EDA to create a Hazard Mitigation Partnership to help communities avoid or minimize problems arising from natural disasters. Using existing resources and personnel, this initiative improves education, training, and outreach activities to help communities to plan for future disasters.

USDA continues to be the lead agency providing guidance and support for the National Rural Development Partnership, which coordinates the efforts of public (Federal, State, and local), private, and nonprofit groups interested in rural development. State Rural Development Councils, which currently exist in 36 States, are the principal agents in the Partnership. To enhance their efforts, a new national nonprofit organization, Partners for Rural America, Inc., was created in 1999. It recently announced a new rural entrepreneurship initiative, which will competitively select up to three organizations from different States to receive intensive assistance in developing entrepreneurship strategies.

The Brownfields National Partnership, which helps assess and clean up polluted land so that it may be suitable for development, is now in its third year. This partnership includes 15 Federal agencies. Among those providing the most assistance are HUD, SBA, EDA, and EPA (Environmental Protection Agency). HUD received $25 million in funding for this program in 2000—the same as in the previous 2 years. Other agencies will use existing programs to help clean up brownfields. In its first 2 years, this initiative has resulted in a total public sector investment of $385 million, leveraging another $1.8 billion in private investment to help clean up contaminated property. A special Brownfields tax incentive was enacted in 1997 and has been extended each year since.

The Department of Transportation's (DOT) new Transportation and Community and System Preservation program provides for research and grants to help communities solve problems linking economic development, transportation, land development, environmental protection, and public safety. In 1999, this highly competitive program funded its first 35 projects selected from 524 applicants. It is authorized to spend about $20 million annually through 2003.

In May 1999, DOT announced a new Rural Transportation initiative to help rural America benefit more from economic growth and transportation improvements. The initiative covers railroad improvements, transportation safety, planning, intercity transportation (including air and bus service), tourism in national parks, and a new “Serving Rural America” guide to DOT programs and contacts designed for rural officials and residents. Complementing this effort is the new USDA-DOT joint effort involving research and data collaboration, and combined efforts to address freight transportation and rural development issues. The USDA-DOT Rural Transportation Task Force first met in January 1999, and working groups are meeting in 2000 to develop action strategies. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

More Money for Telecommunications, Other Programs

Telecommunications programs received higher funding in 2000. Most other rural infrastructure programs, including transportation and environmental programs, also received more money.

Loan activity in telecommunications programs is expected to increase in 2000. USDA's telecommunications loan approvals are expected to grow by 43 percent over 1999 levels to $495 million, while the Rural Telephone Bank loan program is projected to increase by 54 percent to $175 million. These programs, important in totally rural counties, provide loans for upgrading and expanding telecommunications facilities that serve rural residents. Great demand also continues for program funds from USDA's $220 million Distance Learning and Telemedicine Program, which provides loans and grants to improve rural education and health care through telecommunications. For this program, Congress added $50 million in new loan authority and $7 million in new grant authority.

In May 1999, the Federal Communications Commission (FCC) increased universal service funding to support improved high-speed Internet connections for schools and libraries by more than 75 percent to $2.25 billion. The decision increases funding for the so-called E-rate program by charging phone companies for improved Internet access for individuals who may be adversely affected by the "Digital Divide," many of whom are located in rural areas. In recent years, these costs have been passed along to consumers.

However, not all telecommunications programs are increasing in funding. The Commerce Department's Technology Opportunity Grants Program (formerly the Information Infrastructure Grants Program), which promotes the widespread use of telecommunications (the so-called Information Superhighway) to improve the quality and accessibility of various teleservices, received a 14-percent cut in 2000, dropping from $18 million to $16 million.

After Temporary Freeze, Airport Funding Increased for Coming Years

In the fall of 1999, legislators put on hold efforts to reauthorize the Nation's aviation programs until differences could be worked out over how the programs would be funded. Air service is an important factor in attracting and retaining business for nonmetro communities, especially for manufacturing and high-tech businesses. Hence, rural development has had a big stake in the debate.

The delay in reauthorization led to a temporary freeze on money available for airport capital projects, such as runway reconstruction, control tower improvements, and aviation safety projects under the $1.9 billion (2000) Airport Improvement Program (table 1). However, in March 2000, Congressional leaders agreed to sharply increase authorized spending from the Airport and Airway Trust Fund over the next 3 years. This fund is used to pay for various Federal Aviation Administration programs, including the Airport Improvement Program. Funding for that program is authorized to increase up to $3.4 billion—a 79-percent increase—by 2003.

The agreement further guarantees that the Airport Improvement Program, which previously had been allowed to spend far less than authorized, would be given priority in future spending of Trust Fund money. This could help ensure significantly higher airport improvement spending in future years. Although all rural counties with airport facility projects are expected to benefit, Federal land counties, which receive the highest per capita funding for this program and are mostly in the West, may benefit most. Airports would also benefit from an increase in passenger facility charges allowed by this legislation, though this helps large airports more than small airports.

Recent legislative changes may also enhance airline service and competition at smaller airports by loosening restrictions at several large airports to allow access to more region-

Table 1

Federal funding for selected infrastructure programs by fiscal year

Funding has increased or remained unchanged for most infrastructure programs in 2000

Program	1999 actual	2000 estimate	Change[1]	Rural areas most affected by the program[2]
	Billion dollars		Percent	
DOT Highway Planning and Construction Program	28.19	28.91	3	Counties in the West
Nonurbanized Area Formula Grants Program	.18	.20	8	Counties in the Northwest
DOT Airport Improvement Program	1.99	1.90	-5	Federal land counties
EPA Drinking Water SRF	.78	.82	6	Disadvantaged communities with small water systems
EPA Clean Water SRF	1.35	1.35	0	Government counties in the West
USDA Water and Waste Disposal Program[3]	1.30	1.29	-1	Transfer counties in the South and West
USDA Community Facility Program	.28	.41	47	Totally rural counties in the West
EDA public works grants	.21	.21	-1	Transfer counties
USDA telecommunication loans[4]	.35	.50	43	Rural areas in general
USDA Distance Learning and Telemedicine Program[5]	.02	.22	1,366	Rural areas in general
USDA Electric Loan Program	1.57	2.12	35	Rural areas in general

Note: DOT = U.S. Department of Transportation; EPA = U.S. Environmental Protection Agency; SRF = State Revolving Fund; USDA = U.S. Department of Agriculture; EDA = Economic Development Administration, U.S. Department of Commerce.

[1]Change is computed using actual amounts in millions of dollars, rather than rounded amounts shown in table.

[2]County types are defined in the appendix.

[3]Excludes funding from the Fund For Rural America.

[4]Excludes Rural Telephone Bank loans.

[5]Includes both grants and loans.

Source: *Budget of the United States Government, Fiscal Year 2001*.

al airlines and requiring that airlines share their facilities with other airlines if they control more than 60 percent of flights at an airport.

Not affected by the temporary funding cutoff problem was the Essential Air Services program, which funds air service for small communities that lost service after deregulation. This program received $50 million in funding for 2000, which is a permanent annual appropriation for the program based on the Federal Aviation Reauthorization Act of 1996 (P.L. 104-264). This program mostly benefits a small number of rural communities, mainly in the Midwest, the Rocky Mountain States, and Alaska. The new legislation adds an additional $15 million per year to this program, and begins a 3-year pilot program that offers assistance to communities lacking sufficient air service but not covered by the Essential Air Services program.

Other Transportation Programs

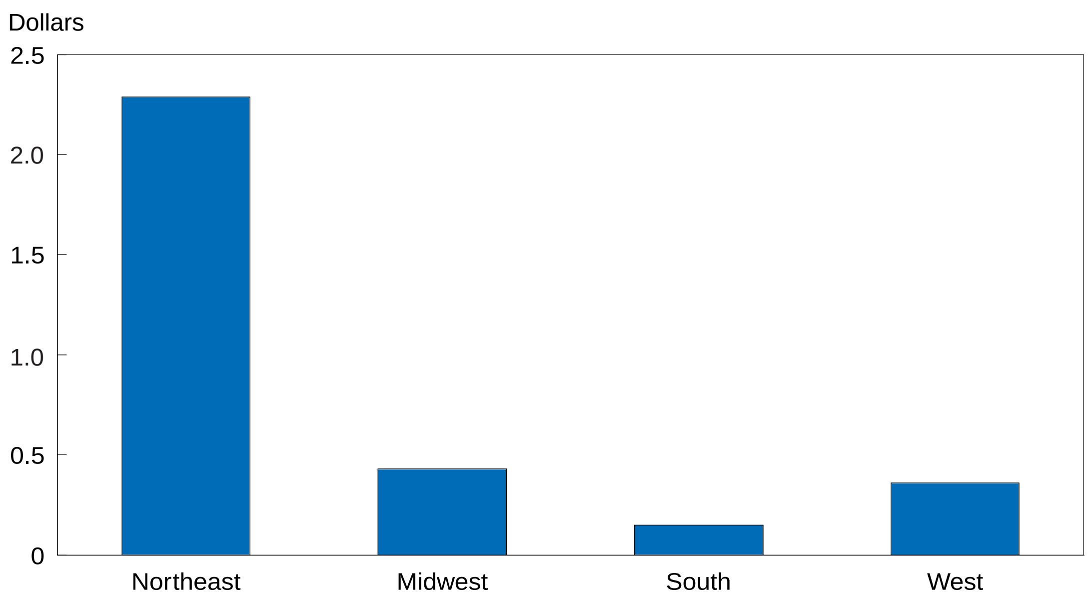
The Department of Transportation's Highway Planning and Construction Program, which provides grants for Federal-aid highways, is funded at a record $28.9 billion for 2000, up 3 percent from 1999. This program is important in many nonmetro counties, especially in the West where per capita allocations are highest. The Nonurbanized Area Formula Grants Program, which provides money for rural public transportation, received $198 million for 2000, an 8-percent increase, and is especially important in parts of the Northeast (fig. 1).

Continuing consolidations in the rail freight industry (see section on Regulations) should add to the fortunes of small railroads. Since the railroad industry was deregulated in 1980, small railroads have been established in many rural areas, helping to prevent some of the negative effects of mergers, while ensuring continued rail service for smaller communities. Federal funding for rail planning, acquisition, track rehabilitation, and the establishment of small railroads is available through the U.S. Department of Transportation's Local Rail Freight Assistance program. Currently, the program operates on carryover funds.

Figure 1

Per capita funding for the Nonurbanized Area Formula Grants Programs (rural public transit), fiscal year 1998

Highest levels of aid go to counties in the Northeast



Source: Calculated by ERS using data from the Census Bureau.

Amtrak, which operates a 22,000-mile intercity passenger rail system serving more than 500 communities in 45 States, received $571 million in funding in 2000, a 6-percent decrease from 1999 but still in line with a 1997 agreement to make the Nation's passenger rail network subsidy-free by 2003. Although relatively few nonmetro communities have Amtrak service, nonmetro industries that rely on passenger rail service to transport workers and customers—such as the tourism and service industries—may benefit from recent gains in ridership. Such gains may also benefit some low-income rural residents—such as the elderly and persons with disabilities—since Amtrak is one of the few viable transportation options for nonmetro residents without access to automobiles.

Rural businesses may benefit from the recent establishment of freight shipment services along some of Amtrak's routes. Designed to provide a new source of revenue to the quasi-public passenger rail service agency, such services may benefit isolated rural businesses that require rapid shipment of small packages but lack adequate air freight facilities.

Environmental Infrastructure Programs

The Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund program, which makes low-interest loans to public water systems and provides grants to Indian tribes and Alaskan Native villages to improve local drinking water systems, has received $820 million in Federal funding for fiscal year 2000, an increase of 6 percent. The Clean Water State Revolving Fund, which provides financial assistance for wastewater systems, received $1.35 billion in 2000, unchanged from 1999. Another important EPA rural water program—the U.S./Mexico Border Program, which provides funds to support the planning, design, and construction of high-priority water and wastewater and drinking facilities along the U.S./Mexico border—received $50 million in 2000, unchanged from the year before. An additional $30 million was made available in 2000 for grants to the State of Alaska to address drinking water and wastewater infrastructure needs of rural and Alaska Native villages.

The largest USDA infrastructure program, the Water and Waste Disposal Program, provides loans and grants to small (10,000 or fewer residents) rural communities for establishing, expanding, or modernizing water treatment and waste disposal facilities. Communities must first be denied access to commercial credit to be eligible for assistance. Grants are limited to 75 percent of project costs, and are available only to those communities with high poverty rates. This program provides $1.29 billion in loans (primarily direct loans) and grants for 2000, unchanged from the prior year. (Additional loans and grants are being provided using $28 million from the Fund For Rural America.) This aid supports USDA's Water 2000 initiative, which targets Federal investment to rural communities having the most serious drinking water quality, quantity, and dependability problems. The program is expected to create over 40,000 rural jobs and provide new or improved water services to about 700,000 rural residents. The highest levels of aid went to transfer counties, which are mostly in the South and West, in 1998.

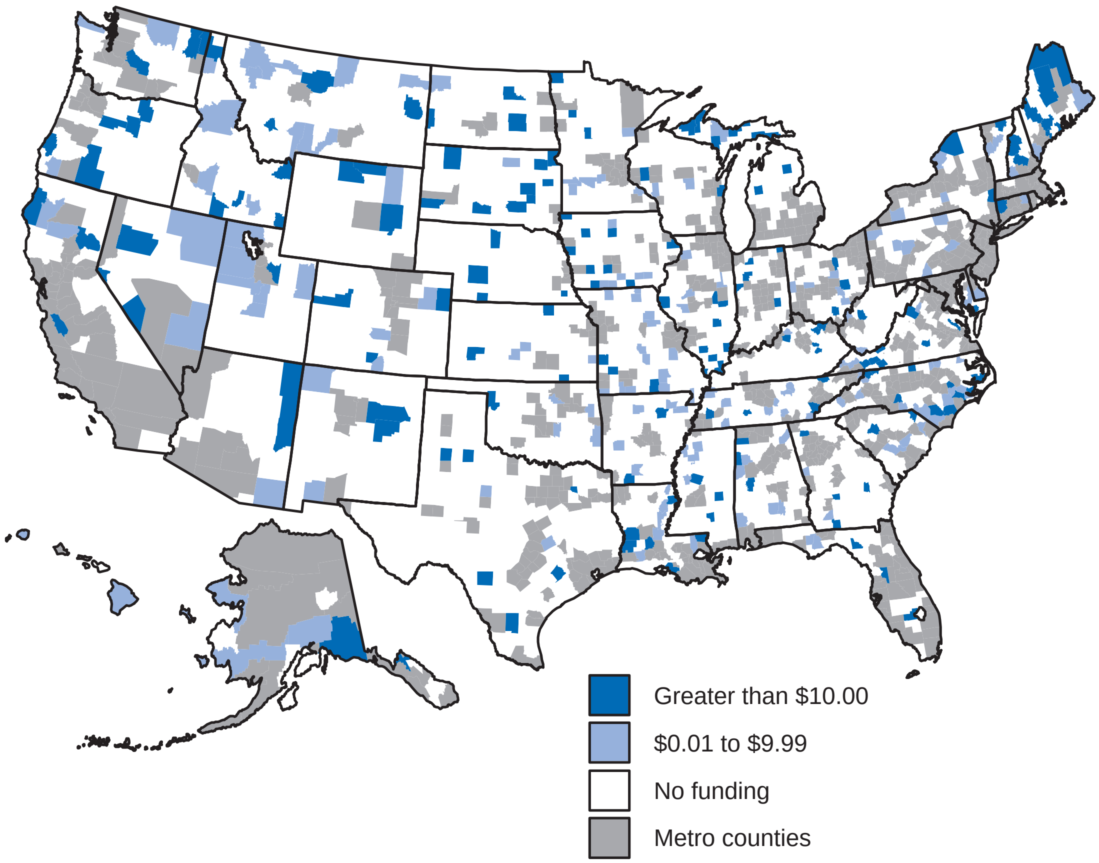
Other Infrastructure Programs

Most of USDA's other infrastructure programs are expected to finance increasing amounts of infrastructure for fiscal year 2000 by increasing money available for guaranteed and direct loans. For example, the Rural Housing Service's $409 million (2000) Community Facility Program, which provides direct loans, guarantees, and grants for essential community facilities in rural areas, will get a 47-percent boost in total loanmaking authority financed compared with 1999. Guaranteed loans for this program have increased 96 percent since 1999, direct loans have increased 14 percent, and grants have increased 63 percent. Funds are allocated to each State based on its rural population (fig. 2). Priority for program funds is given to health and safety facilities. The Forest Service's $114 million (2000) Payments to States program, which provides grants for public schools and roads on national forest lands, experienced a 7-percent decrease in funding. In recent years, funding under this program, which returns to counties a portion of

Figure 2

Per capita Community Facility loans, fiscal year 1998

Loans from this growing program go to rural counties nationwide



Source: Calculated by ERS using Federal funds data from the Bureau of the Census.

receipts from logging and other economic activity in Federal forests, has been hurt by falling timber sales.

Economic Development Administration (EDA) public works grants help distressed communities create jobs by attracting new industries, promoting business expansion, and diversifying local economies. This Commerce Department program particularly benefits rural transfer counties, which tend to be concentrated in the South. EDA funds have been used for a variety of public facilities, such as water and sewer systems, industrial access roads, port and railroad facilities, schools, and business incubators. Funding for the grants program is unchanged for 2000 at $205 million.

USDA's Electric Loan Program, which provides loans for upgrading and expanding electric services to rural residents, is projected to grow by 35 percent in 2000 to $2.1 billion. This aid supplements money available from private credit sources and is most important to rural residents in totally rural areas and persistent-poverty counties.

The Tennessee Valley Authority (TVA), the quasi-Federal agency that provides flood control, navigation, and electric power in the Tennessee Valley region, has power proceeds and borrowings of $6.6 billion in 2000, down 7 percent from the year before. TVA's role as the sole supplier of electric power to a largely nonmetro area of 80,000 square miles in the South is currently under review as Congress considers ways to restructure the electric power industry. *[Dennis Brown, 202-694-5338, dennisb@ers.usda.gov]*

Technical Assistance Assuming Greater Role in Business Assistance Programs

Ensuring credit availability in underserved areas or to disadvantaged businesses while minimizing program cost to taxpayers will become more challenging as private lenders use more sophisticated techniques to identify acceptable credit risks in the small business sector. Increasing service—in the form of better monitoring and provision of technical assistance—is seen as the best way to promote financial and program success.

The financial sector is evolving rapidly. The availability of more comprehensive databases combined with more sophisticated analytical tools for identifying acceptable credit risks may reduce the need for Federal business assistance among those small businesses that can be screened through ciphers such as credit scoring. Among these businesses, greater financial integration is expediting the flow of funds to their most productive uses, tapping funds from both traditional financial institutions and nontraditional lenders such as suppliers. Small business borrowers are securing an increasing share of their credit needs from institutions outside the local community. Federal business assistance programs must evolve with the financial sector to ensure that public resources are used to increase the availability of capital to businesses that are otherwise excluded from participation in capital markets. The implication of these developments is that Federal programs will have to continually develop tools to reduce risks, given public policy goals.

Greater emphasis on targeting distressed communities will reduce the likelihood that Federal programs assist businesses that are already well served by private institutions. The challenge of reducing risks while meeting these policy goals is being addressed in two ways. First, the delegation of processing tasks from agency to private partners has freed up Federal resources for better monitoring of lender and borrower performance. Second, technical assistance—which has been integral in many business assistance programs from the outset—is being reinvigorated. For example, both the Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) teamed up with the Manufacturing Extension Partnership within the National Institute of Standards and Technology to provide small business and farm assistance in responding to the Y2K crisis. A proposed initiative in the 2001 budget involving these same agencies would develop e-commerce capabilities among clients. More generally, the Internet is providing new opportunities for disseminating information to very specialized small business audiences as well as providing interactive services that were unimaginable just a few years ago. The FY 2000 budget appropriation for technical assistance within the SBA was less than actual expenditures in 1999, mainly due to a slight decline in funding for the Small Business Development Centers that comprise the majority of technical assistance expenditures. However, the SBA proposes to significantly increase technical assistance in 2001, largely through new initiatives discussed below.

Some regions, still, are not participating fully in the new prosperity generated by an otherwise robust economy. In response, the New Markets initiative seeks to (1) mobilize underutilized resources in distressed inner cities, rural areas, and Native American reservations to increase national economic growth without fueling inflationary pressures; and (2) lessen regional disparities by targeting job creation in high-poverty areas (see “Recent Changes Advance New Markets and Livability Initiatives” in this issue). Expansion and retargeting of several existing business assistance programs within the SBA and USDA may make a substantial contribution to this initiative, focusing on the development of indigenous businesses by combining financial and technical assistance.

Groups that historically have been disadvantaged in securing credit from formal lenders are the other focus of business assistance programs. Although less visible than the New Markets initiative, both the structuring of loan programs to assist these groups and the targeting of technical assistance programs to these groups have expanded over the past several years. Lending to minority- and women-owned businesses through the SBA section 7(a) Guaranteed Loan program has nearly tripled since 1994. More than 80 Women’s Business Centers affiliated with the SBA now provide startup and managerial assistance to women entrepreneurs and small business owners. In contrast to the Small Business Development Centers (SBDC’s) that provide the majority of technical assistance services within the SBA, the Women's Business Centers are much more likely to be located solely in metropolitan areas within a State. Among many other things, the centers emphasize the promotion of entrepreneurship as an alternative path from welfare to work. Financing for microenterprise startups has been provided by the SBA section 7(m) Microloan program, the Intermediary Relending Program and Rural Business Enterprise Grant program of USDA's Rural Business-Cooperative Service to fund Revolving Loan Funds, and EDA's Economic Adjustment Program.

Guaranteed Loans to Small Business Projected To Increase

The SBA loan guarantee program is the largest single source of Federal financial assistance for small business (table 1). The 7(a) program guarantees loans to small businesses unable to secure financing on reasonable terms from private lenders. The program operates through private lenders that provide loans. Generally, SBA guarantees a maxi-

Table 1

Federal funding for selected business assistance programs by fiscal year[1]

Most business loan guarantee programs are expected to increase their loan activity in 2000

Program	1999 actual	2000 estimate	Change	Rural areas most affected by the program[2]
	Billion dollars		Percent	
SBA 7(a) business loan guarantees	9.47	9.75	3	Service and retirement counties and counties in the West
SBA Certified Development Company guarantee (section 504)	1.98	3.00	52	Service counties and counties in the West
SBA disaster loans	0.76	1.05	38	Places experiencing disasters
RBS Business and Industry loan guarantees (B&I)	1.24	0.90	-27	Government counties and counties in the West
RBS Intermediary Relending Program	0.03	0.04	15[3]	Poverty and transfer counties and counties in the West
RBS Rural Business Enterprise Grants (RBEG)	0.04	0.04	11[3]	Poverty and transfer counties and counties in the South
EDA Economic Adjustment Grants	0.03	0.03	0	Service and commuting counties and counties in the South

Note: SBA = Small Business Administration; RBS = Rural Business-Cooperative Service, U.S. Department of Agriculture; EDA = Economic Development Administration, U.S. Department of Commerce.

[1]Budget authority used for grant programs; projected loan levels (obligations or program level) used for loan programs. In some cases, budget authority may be falling at the same time that projected loan obligations are rising. This can happen for any number of reasons, including making use of greater efficiencies, reducing subsidies, charging fees and using unobligated balances of funds from prior years.

[2]County types are defined in the appendix.

[3]Calculated on actual expenditures and estimated expenditures. Does not correspond to table entries due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2001*.

mum of 80 percent of the principal for loans of $100,000 or less, and 75 percent for loans over $100,000. The maximum guarantee amount is $750,000.

Use of the program increased last year, rebounding from a modest decline in 1998. With the exception of 1998, loan guarantees have increased steadily over the past 5 years. Loan guarantees in 1999 totaled $9.471 billion, and there is budget authority for $9.753 billion in 2000.

One result of the continued strength of the economy has been a substantial reduction in the number of new business starts since 1996. According to data collected by the National Federation of Independent Business, the number of new business starts declined by 32.8 percent from 3,479,000 in 1995 to 2,335,000 in 1998. Given tight labor markets, it is commonly believed that potential entrepreneurs are currently content to remain as employees. The increase in small business loan guarantees amid declines in the number of initial startups is explained by the robust economy, which has led to a decline in the number of small business closings and startups, and an increase in the number of successful small businesses that are seeking loans for expansion.

In 1998, nonmetro areas received $18.53 ($19.45 in 1997) in per capita small business 7(a) guaranteed assistance, versus $25.26 ($27 in 1997) in metro areas. The nonmetro areas that benefited most were in Western States, in retirement-destination counties, and in counties specializing in services.

Activity has also grown in SBA's large section 504 Certified Development Company (CDC) program. A CDC is a nonprofit corporation set up to invest in the economic development of the surrounding community or region. The objective is to provide long-term financing for major fixed assets such as land and buildings. In contrast to the 7(a) program, funds from private lenders provide approximately 50 percent of the loan, from the SBA through debenture sales provide not more than 40 percent of the loan, and from the borrower a minimum 10-percent equity contribution. In 1999, about $2 billion in CDC debenture guarantees were made available, with budget authority for as much as $3 billion in 2000.

Metro areas tended to benefit more from this program than nonmetro areas. In 1997, nonmetro counties on average received $4.57 per capita in 504 debenture guarantees, compared with more than $7 per capita in metro counties.

USDA Business Assistance Programs

The main business programs of the USDA Rural Business-Cooperative Service (RBS) are the Business and Industry (B&I) Guaranteed and Direct Loan program, the Intermediary Relending Program (IRP), and the Rural Business Enterprise Grants program. Unlike other Federal business assistance programs, RBS programs serve rural areas exclusively. Generally, RBS programs are available to unincorporated areas and cities with 50,000 or fewer residents. However, the IRP is limited to unincorporated areas and cities with 25,000 or fewer residents. The objectives of these programs are to create employment and diversify the economic base in rural communities.

The B&I Guaranteed Loan program works with commercial lenders in rural areas. The average guarantee is 80 percent of the loan amount. Historically, the program has enjoyed very low default rates. The estimated program level of $900 million in 2000 is considerably lower than the $1.18 billion provided in 1999. However, this still represents a substantial increase in the support of rural business over the past several years. In 1993, B&I loan guarantees totaled $100 million. In 1998, rural counties received $11.77 per capita in loan guarantees from the B&I program, compared with $18.53 for the SBA section 7(a) program. The maximum outstanding aggregate loan amount to any one business is $25 million.

Unlike the Guaranteed Loan program, the B&I Direct Loan Program assists businesses in targeted areas with loans, which are not otherwise available from a commercial lender, with or without a guarantee. The estimated program level in 2000 remains the same as in

1999 at $50 million. The maximum aggregate outstanding loan amount to any one business is $10 million.

The IRP finances business facilities and community development projects through the establishment of revolving loan funds. An intermediary—i.e., a private nonprofit corporation, public agency, Native American group, or cooperative—borrows funds from RBS at 1 percent interest and then relends to ultimate recipients. The term of the loan to intermediaries can be as long as 30 years. The interest rate is 1 percent per annum. However, the intermediary determines terms of loans to ultimate recipients. The subsidized rate partially covers administrative costs associated with the revolving loans. Despite high program costs relative to loanable funds, the IRP has been aptly suited to implement microenterprise lending programs. Such programs may be more appropriate for supporting entrepreneurship in distressed communities or among former recipients of public assistance. Nonprofit organizations have been a traditional conduit of IRP funds to ultimate recipients, and these organizations have an advantage in developing social collateral among borrowers that is key to microenterprise lending.

RBS may make grants under the Rural Business Enterprise Grant (RBEG) program to public bodies, nonprofit corporations, and federally recognized Indian Tribal groups to finance and facilitate development of small and emerging private business enterprises located in areas outside the boundary of a city of 50,000 or more and its immediately adjacent urbanized or urbanizing area. Costs that may be paid from grant funds include the acquisition and development of land and the construction of buildings, plant, equipment, access streets and roads, parking areas, and utility and service extensions; refinancing; fees for professional services; technical assistance and related training for adults; startup operating costs and working capital, providing financial assistance to a third party; production of television programs to provide information to rural residents; and to create, expand, and operate rural distance learning networks. Grants may also be made to establish or fund revolving loan programs.

A Memorandum of Understanding (MOU) with the Small Business Administration was recently developed that will allow RBS borrowers to obtain needed technical assistance from the Small Business Development Centers. In addition, the MOU provides both Agencies with opportunities to work together to foster job creation and economic development in rural areas.

EDA Economic Adjustment Program

Economic Adjustment grants help local areas respond to changes in the economy that threaten the underlying economic base. Grants can be used for the design or implementation of strategies to adjust to these changes by State or municipal government, CDC's, or other nonprofits recognized by EDA as representing a Redevelopment Area. A principal selection criterion is the extent to which a proposed project will leverage private investment to strengthen the economic base of the area. Implementation activities commonly include the creation or expansion of strategically targeted business development and financing programs, including grants for revolving loan funds, infrastructure improvements, organizational development, and market or industry research and analysis. Funding for the program has been level since 1998 at a little over $30 million.

The highest level of per capita business assistance to rural counties, taking all of the programs in 1998 into account, was in the West (fig. 1). However, between 1997 and 1998, the level of per capita funding in nonmetro counties declined in the West and increased in the Northeast, Midwest, and South. In 1998, 406 nonmetro counties received no assistance, versus 332 such counties in 1997.

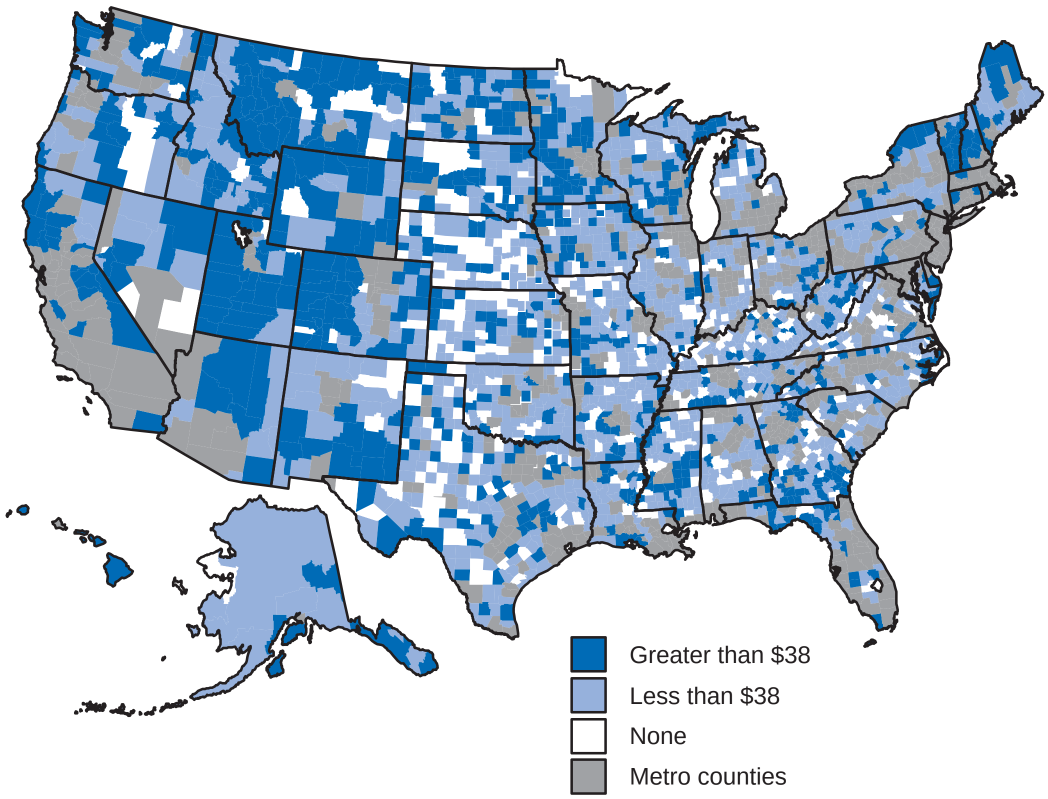
Augmenting Traditional Technical Assistance

The traditional mainstay of business development assistance has been the network of Small Business Development Centers (SBDC's) of the SBA. Close to 90 percent ($89 million) of SBA's business development assistance in 1999 funded the SBDC's. However,

Figure 1

Per capita Federal nonmetro business assistance, fiscal year 1998

Business assistance was greatest in the West



Source: Calculated by ERS using Federals Funds data from the Bureau of the Census.

this expenditure leverages a minimum 50-percent match from the private sector, educational institutions, and State and local government. All told, SBDC services are available in close to 1,000 locations, commonly State universities and community colleges or associated with economic development organizations. Availability of service—counseling, training and technical assistance in all aspects of small business management—has been an important criterion in the location of centers within States. Special programs include international trade assistance, procurement assistance, and venture capital formation, and complement assistance in overcoming financial, marketing, production, engineering or other technical problems. Center staff, paid consultants, and volunteers from the Service Corps of Retired Executives or the local business community tailor services to the needs of individual clients.

SBA is beginning to augment traditional technical assistance by building competence in e-commerce, facilitating collaborative relationships between small businesses and their corporate customers, stressing innovation within the small business sector, and promoting entrepreneurship in distressed areas.

The FY 2001 budget request includes initiatives to fund commercialization assistance for successful Small Business Innovation and Research award projects (SBIR Phase III) and to promote entrepreneurship in distressed areas under the Program for Investment in Micro-Entrepreneurs (PRIME). The SBIR program has addressed the significant underrepresentation of small- and medium-sized business in federally funded research and development efforts. The first stage of the program funds feasibility studies of proposed innovations. Phase II funds development of the most promising Phase I projects. Phase III of the SBIR program will work to bring successful innovations to market.

The request for funding of the PRIME initiative is spurred by the New Markets initiative, to provide technical assistance to recent and aspiring entrepreneurs in distressed areas. The ratio of expenses for technical assistance to loanable funds in microenterprise programs is much higher than for small business generally. Microenterprise loan amounts are typically less than $5,000, with the development of entrepreneurial skills especially crucial to success in business.

Both the BusinessLINC (Learning, Information, Networking, and Collaboration) and the Electronic Commerce initiatives address the perception that ‘interconnectivity’ between businesses will become more critical to business success. The BusinessLINC initiative received appropriations of $1.5 million in 2000 to stimulate relationships between large businesses and small business owners or entrepreneurs, especially in rural areas and inner cities. These relationships may be technical assistance, counseling, or consulting, with anticipated outcomes including strategic alliances and better supplier relationships. The proposed Electronic Commerce initiative would improve education and training of small businesses in this rapidly developing area and thereby increase their ability to retain and grow the customer base as both retail and business-to-business sales shift to the Internet.

The value of the Internet to small business is also demonstrated by the development of several SBA web sites to disseminate technical information to specialized small business audiences. *TradeNet’s Export Advisor* (http://www.tradenet.gov), developed by SBA with substantial interagency collaboration, serves as one-stop access to government advice for businesses selling products overseas. The site provides tutorials on how to begin exporting along with information on trade leads. The PRO-Net Procurement Marketing and Access Network (http://pro-net.sba.gov) is an electronic gateway for procurement information allowing small businesses to market their capabilities to government agencies and other contractors seeking small business subcontractors. The network also allows small business to identify procurement opportunities. The Small Business Classroom (http://classroom.sba.gov) provides online courses in a wide variety of management subjects, counseling by SCORE volunteers, and contacts to SBA training and conferences when virtual contact proves inadequate.

The traditional one-to-one technical assistance model developed in the SBDC’s is being extended and augmented. The BusinessLINC initiative would include large businesses as viable mentors. The PRIME program extends one-to-one entrepreneurial assistance to disadvantaged individuals in distressed communities. The Internet can disseminate specialized information and link small businesses and their potential customers, as demonstrated in the PRO-Net program. Finally, the ability of innovative tools to solve common small business problems was demonstrated by the successful rollout of the Y2K Toolkit, providing a model for the proposed Electronic Commerce Toolkit. The ability of these technical services to assist small business is likely to become more critical to the success of Federal loan guarantee programs as private lenders become more willing to fund the better small business risks. *[Tim Wojan, 202-694-5345, twojan@ers.usda.gov]*

Housing Assistance Increases in 2000

Most housing assistance programs will be funded at higher levels in 2000 than in 1999. There are few major changes in large Federal housing programs, but they are evolving in ways that reflect housing legislation of the prior 2 years. Changes reduce restrictions on the use of housing funds, provide incentives to work, and increase the range of housing choices available to program participants.

Rural and urban areas face broadly similar housing policy issues, with similar budget priorities and many of the same housing programs. In addition, social and economic similarities between urban and rural areas outnumber dissimilarities when it comes to housing policy and welfare reform. Also universal is the challenge of increasing the stock of affordable housing, while promoting greater tenant choice in where to live via portable housing vouchers.

At the beginning of 2000, homeownership was at a record high; over three-fourths of nonmetro and two-thirds of all U.S. households owned their homes. While the rate of homeownership is lowest for low-income and minority populations, it is growing and at a more rapid rate than that for other households. In both rural and urban America, low-income and minority households are those most dependent on rental housing, and their share of all renters continues to grow. Thus, most explicit housing assistance expenditures (as opposed to tax expenditures associated with housing tax breaks) are targeted at rental housing, despite the Federal goal of promoting homeownership. Only USDA operates a major program that promotes home purchase by low- and very low-income households.

Growth in Federally Financed Homes in 2000

One of the more significant areas of growth in rural economic development program activity in 2000 is in USDA's Rural Housing Service's (RHS) programs, and much of this growth involves the programs that benefit low- and very low-income households through subsidized direct loans and rental assistance. All funding levels refer to an October 1-September 31 fiscal year.

Section 502 is USDA's main housing loan program, providing over $1 billion in direct loans and over $3 billion in loan guarantees for the purchase of single-family homes. RHS expects the total amount loaned under the direct loan program will increase by about 20 percent in 2000. However, appropriations for this program have actually declined because the average subsidy per loan is smaller (table 1). As might be expected, this program disproportionately benefits rural areas. In 1998, direct loans per capita were $9.75 in nonmetro areas and $2.47 in metro areas. Although the program benefits rural areas nationwide, the highest benefits, in per capita dollars, were in low-income areas, such as in the South, and in rapidly growing areas, such as in the West (fig. 1).

The section 502 guaranteed loan program requires less Federal money but finances more homes because loans are made at market interest rates and receive no interest subsidy. In 2000, this program is expected to guarantee $3.2 billion in single-family home loans, up 7 percent from 1999. In 1998, the per capita benefits from this program were also highest in rural areas (nonmetro $24.01, metro $7.71); however, the distribution of program benefits shows a different regional pattern, with benefits generally higher in the North than in the South (fig. 2).

RHS's section 504 very low-income housing repair loans and grants program grew in funding in 2000. Direct loans from this program are projected to rise to $32.4 million, and grants will increase to $25 million. In addition, early appropriations of supplemental disaster funds will supply another $15.6 million in section 504 loans and $11.5 million in section 504 grants. Funding also is rising for RHS's other important homeownership grant program, Mutual and Self-Help grants, up 8 percent to $29 million in 2000. In addition, some of the smaller (under $10 million) RHS homeownership programs will increase program activity in 2000, including Self-Help housing loans, Housing Site Development loans, and Supervisory and Technical Assistance grants. Slight decreases in program

Table 1

Federal funding for selected housing programs by fiscal year

Largest percentage increase is expected for USDA's single-family direct loan program

Program	1999 actual	2000 estimate	Change	Rural areas most affected by the program[1]
	Billion dollars		Percent	
USDA/RHS:				
Single family (sec. 502)				
Direct loans	0.97	1.16	20	South, West, and poverty counties[2]
Guarantees	2.98	3.20	7	Outside the South[2]
Multifamily (sec. 515)	0.11	0.11	0	Northeast, South, totally rural, adjacent, and manufacturing counties
Rental assistance	0.58	0.64	10	West, South, totally rural, farming, and poverty counties
VA:				
Loan guarantees	43.09	32.12	-22	West, urbanized and retirement counties
HUD:				
FHA single-family mortgage insurance	113.17	122.34	8	West, retirement, and commuting counties
Section 8 public housing	19.44	19.96	3	Northeast, urbanized, government, and services counties
Home Investment (HOME)	1.60	1.60	0	Northeast, West, and government counties
State/small cities community development block grants	1.27	1.27	0	Small towns and rural areas in farm and poverty States

Note: HUD = Housing and Urban Development; USDA = U.S. Department of Agriculture; RHS = Rural Housing Service: VA = U.S. Department of Veterans Affairs; FHA = Federal Housing Administration.

[1]County types are defined in the appendix.

[2]Information on loan distribution for the 502 program was obtained directly from RHS.

Source: *Budget of the United States Government, Fiscal Year 2001*.

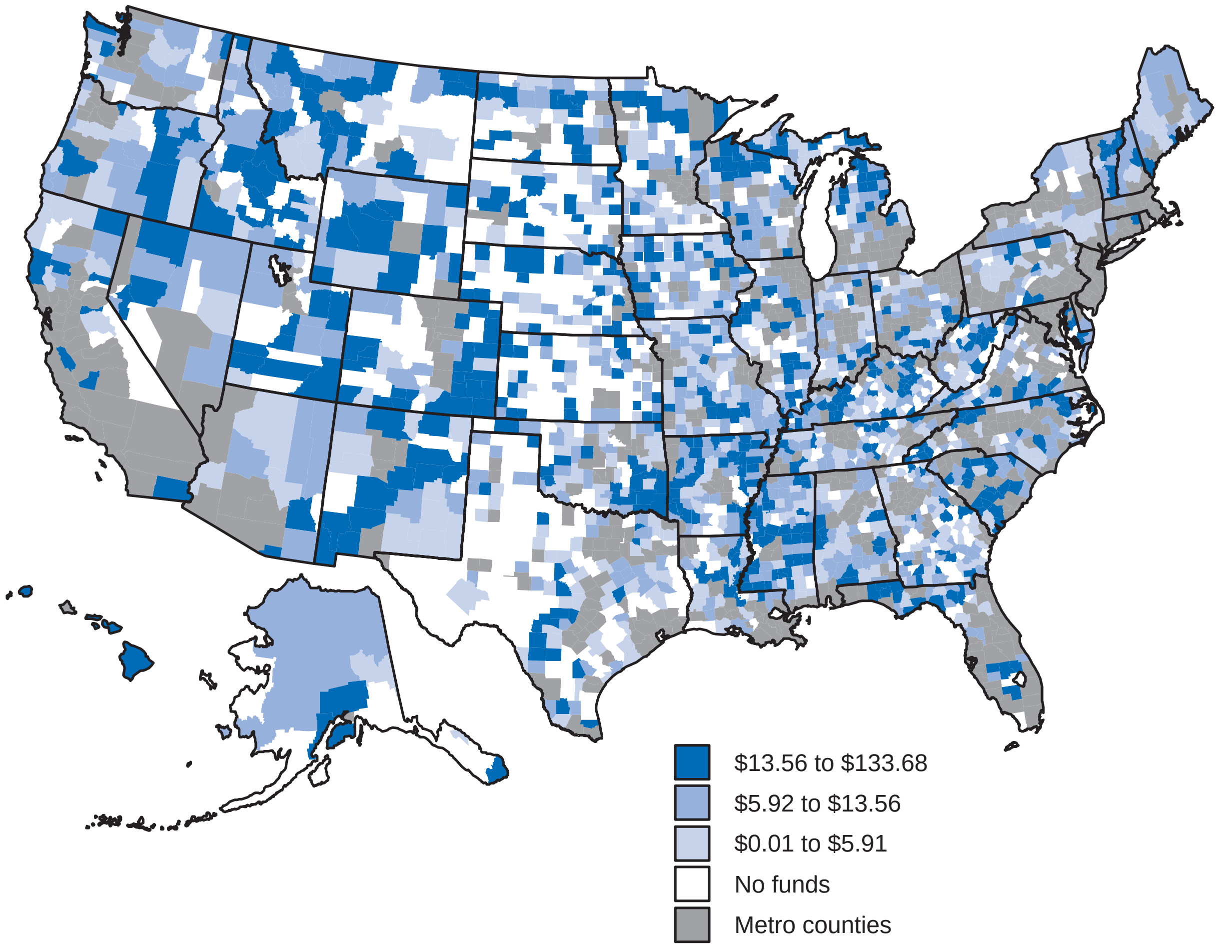
activity are expected for the small Credit Sales loans and Rural Housing Preservation grants programs.

The main HUD homeownership program is the Federal Housing Administration (FHA) single-family home mortgage program (financed by the Mutual Mortgage Insurance Fund). Although it is not targeted to rural areas, FHA finances many more homes than RHS programs, even in rural areas. FHA projects that new loan guarantees in 2000 will increase 8 percent over 1999, totaling about $122 billion. FHA was particularly active in rapidly grow-

Figure 1

Direct USDA loans for nonmetro single-family housing, per capita, fiscal year 1998

Direct loans are concentrated in low-income areas and growing areas



Source: ERS calculations using data from the Rural Housing Service and the Bureau of the Census.

ing nonmetro areas, many of them retirement or commuting counties or in the West. Still, nonmetro areas received less than 7 percent of the loan insurance provided by FHA in 1998.

In contrast, the Department of Veterans Affairs (VA) guaranteed home loan program is projected to reduce its disbursements of new loan guarantees by 22 percent, down to $32 billion in 2000. In 1998, about 10 percent of this program's activity was in nonmetro areas. Nonmetro VA loan levels were highest, per capita, in growing areas such as the West and in retirement counties. And like the HUD programs, the VA program particularly benefited the more urbanized nonmetro areas in 1998.

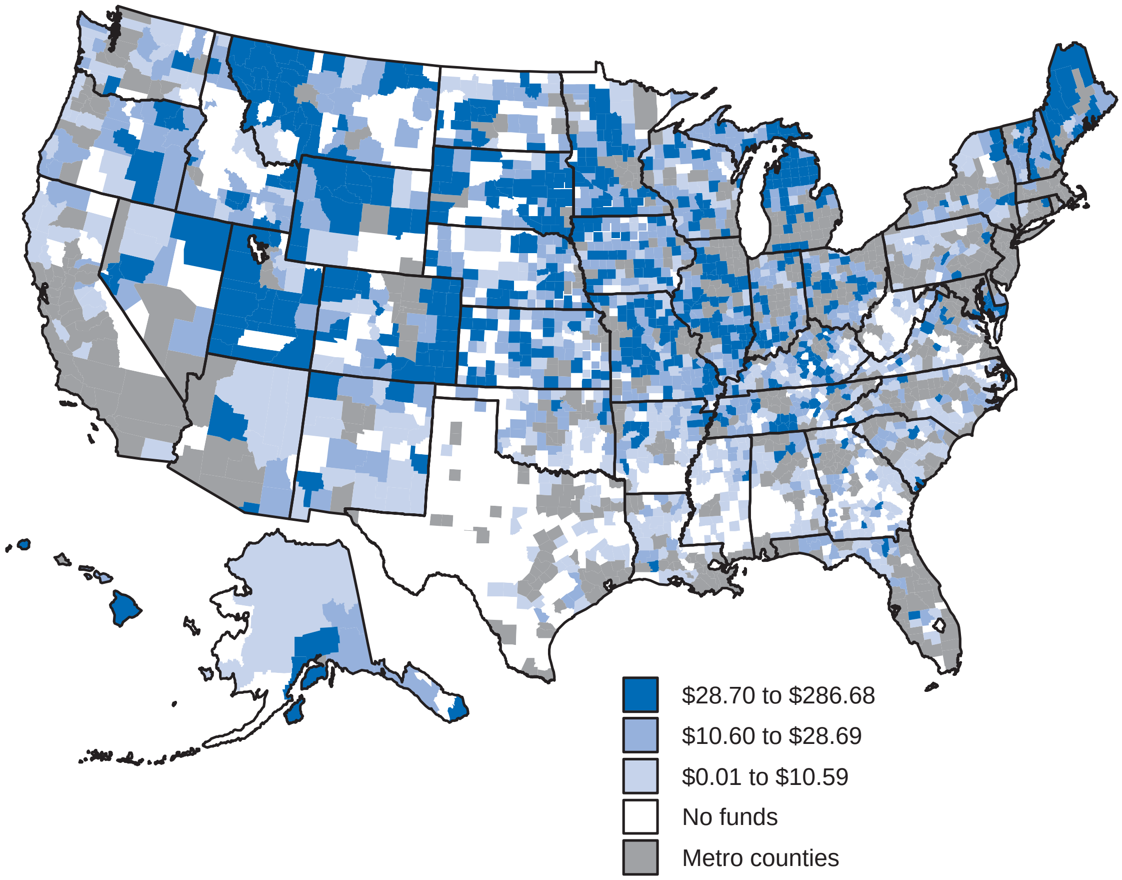
Multifamily Housing and Rental Assistance

USDA has two mortgage financing programs for rural multifamily rental housing. The section 515 direct loan program is the more significant, providing direct subsidized interest rate loans for the construction, purchase, rehabilitation, or repair of low-income rental housing. In 2000, this program will provide about $114 million in loans, the same as 1999. The housing produced by this program is distributed nationally, although the Northeast, South, and totally rural areas such as colonias and Indian reservations particularly benefited in 1998. The section 538 guaranteed rental housing loan program will guarantee about $100 million of market-rate loans in 2000, 25 percent more than in 1999.

Figure 2

Guaranteed USDA loans for nonmetro single-family housing, per capita, fiscal year 1998

The distribution is fairly even except for low levels in the South



Source: ERS calculations using data from the Rural Housing Service and the Bureau of the Census.

Funding for the RHS's smaller Farm Labor Housing loan and grant programs is higher in 2000. Loans are expected to rise from $20 million to $25 million in 2000, and grants from $13 million to $14 million. A supplemental disaster appropriation adds $5 million to loans and $3 million to grants in 2000. These programs, which help to provide housing for migrant and year-round farmworkers, also benefited from emergency assistance in 2000.

Rural rental assistance payments account for $640 million, or about two-thirds of RHS's total program budget in 2000. Under this program, tenants pay 30 percent of their income for rent, and the rural rental assistance payments make up the difference between the tenant's contribution and the rent. Funding for this program, which rose 10 percent from 1999, allows RHS to renew existing contracts with about $11 million left to support repair and rehabilitation of Farm Labor Housing projects as well as most new construction of Farm Labor Housing units. In 1998, payments from this program were greatest in the West and South, and in totally rural, farming, and poverty counties.

HUD provides considerable rental housing assistance in both urban and rural areas. Most HUD low-income rental assistance comes through its section 8 program, which is expected to provide about $16 billion in 2000. HUD will spend another $3 billion in outlays on its public housing capital fund, $2.55 billion on its operating fund, $610 million for its section 236 rental assistance program, and smaller amounts for other related programs. The total of about $20 billion for subsidized housing is up 3 percent from 1999. Programs for the disabled and elderly have anticipated 2000 outlays of $784 million, up 3 percent. HUD's section 8 low-income housing assistance provides funds nationwide. Nonmetro areas received about 12 percent of the funding in 1998, particularly in the Northeast and urbanized nonmetro areas.

HUD has various other programs that directly assist housing in rural and urban areas. Rather than provide an exhaustive, comprehensive list of all such programs, here we will focus on several of the more important programs for rural areas. For example, the Community Development Block Grant (CDBG) program benefits rural areas primarily through the State and Small Cities programs, which were funded at $1.27 billion in 2000. Funding from this program is distributed by the States and may be spent on a variety of objectives, of which housing is only one. The Rural Housing and Economic Development (RHED) program, with 2000 funding of $25 million, awards competitive grants to support innovative housing and economic development activities at the State or local level, with most of the funding going to local activities through local nonprofits, community development organizations, and Indian tribes (local governments are not eligible). Both of these programs will operate at roughly the same levels in 2000 as in 1999.

HUD's Homeless Assistance Grant program is receiving increases in funding. Budget authority for this program grew from $975 million in 1999 to $1,020 million in 2000. Outlays for homeless assistance are expected to be $961 million in 2000, nearly 50 percent more than in 1999. These funds support community activities to reduce homelessness.

HUD's HOME Investment Partnerships program represents an important housing development resource for both urban and rural areas. States receive and distribute 40 percent of the annual appropriation of $1.6 billion dollars. Through this program, many very rural communities have seen new housing construction for the first time in many decades, often developed by rural nonprofit housing developers. Both low-income tenants and new homebuyers have benefited from these developments as well as existing homeowners who have had their units rehabilitated. Funding for this program did not change in 2000.

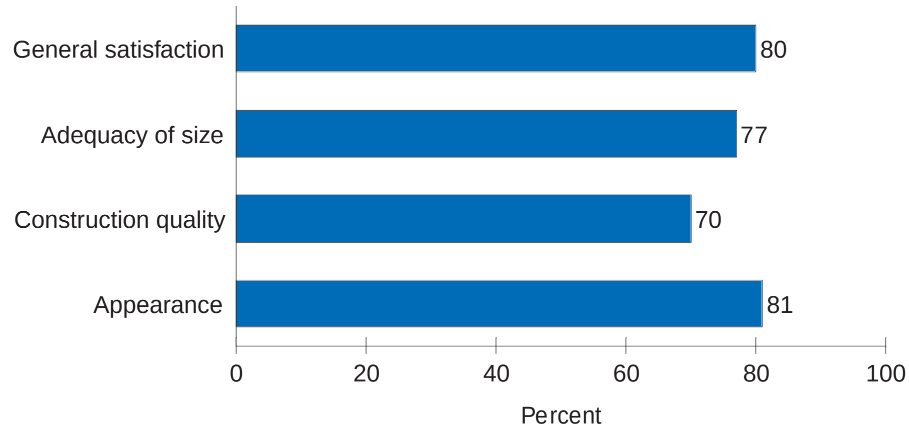
USDA's Single-Family Housing Program Has Been Popular With Borrowers

The first comprehensive survey of recent homebuyers using USDA's section 502 Single Family Housing Program (*Meeting the Housing Needs of Rural Residents: Results of the 1998 Survey of USDA's Single Family Direct Loan Housing Program*, RDRR-91) provided fresh insights. To participate in this program, households must have had low or very low incomes, been unable to obtain a home mortgage from another source, and not own an adequate home. Borrowers were typically first-time homeowners, under age 40, and had children. One-third of the household heads were single parents, 13 percent were Black, and 12 percent were Hispanic. One-fourth had previously received government rental assistance. Most were satisfied with their home, neighborhood, and the section 502 program (fig. 3). *[Jim Mikesell, 202-694-5432, mikesell@ers.usda.gov; and Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

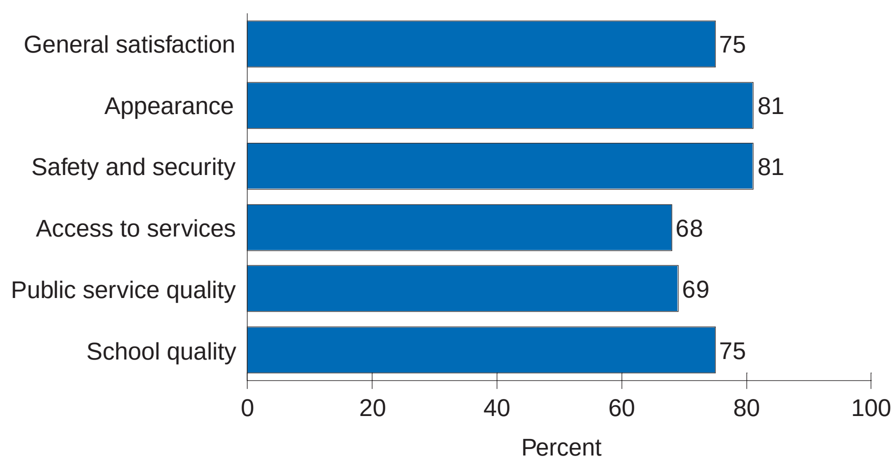
Figure 3

Participant satisfaction among recent single-family home borrowers dealing with USDA's loan program

High satisfaction with current home . . .



. . . and high satisfaction with current neighborhood



Note: High general satisfaction is based on scores of 8, 9, or 10 on a scale of 1-10, with 1 the worst and 10 the best. High satisfaction on the other neighborhood characteristics is based on ratings of good or very good on a five-group scale from very poor to very good.

Source: 1998 Survey of USDA's Single-Family Direct Loan Housing Program, ERS.

International Trade Agreements Bring Adjustment to the Textile and Apparel Industries

Industries important in nonmetro areas, such as agriculture, food processing, and tobacco products, have benefited from increasingly open markets and increased exports. However, the textile and apparel industries have seen declining employment as trade has liberalized, and many nonmetro communities with closed textile and apparel plants have turned to trade assistance programs for help.

Recent trade liberalization efforts, including the North American Free Trade Agreement (NAFTA), are of interest to rural areas because trade-related industries are especially important to rural economies. Exports of goods—including agricultural, manufacturing, and mining products—account for about two-thirds of U.S. exports. These goods-producing industries currently account for 26 percent of nonmetro jobs, whereas they are only 14 percent of metro jobs, making goods production disproportionately nonmetro.

Increased growth in U.S. exports translates into greater employment growth and a lower unemployment rate in nonmetro areas. Indeed, in the recent 1997-98 global financial crisis, nonmetro employment growth declined along with export growth of U.S. goods, while metro labor markets were largely unaffected. As exports rebounded in late 1998 and the global financial crisis subsided, the shock to the nonmetro labor market subsided as well.

Although trade liberalization has benefited nonmetro areas overall, not all industries and localities are equally affected and some may suffer adverse effects. The textile and apparel industries, which are disproportionately nonmetro and concentrated in the Southeast (fig. 1), are a particular concern because of declining employment and import competition.

This article focuses on the textile and apparel industries, looking at the current trade agreements and other international factors that affect domestic production. These industries' participation in Federal trade adjustment assistance programs is also highlighted. In addition, a comparison of the textile and apparel industries' experience with that of agriculture, food processing, and tobacco products is presented.

NAFTA and the WTO Opening Economies to Trade

NAFTA, ratified in 1993, among the United States, Mexico, and Canada, has had a positive effect overall on U.S. agriculture and manufacturing, reinforcing the trend toward greater integration of markets in North America. Along with more competitive U.S. agriculture and manufacturing, American consumers have also benefited from wider sources of supply. NAFTA's most important innovation was incorporating Mexico into the long-standing, open trading relationship between Canada and the United States, a move which acknowledged Mexico's progress in opening its economy.

Although trade liberalization in textiles and apparel lag most other manufacturing sectors, the World Trade Organization's (WTO) 1995 Agreement on Textiles and Clothing (ATC) represents a dramatic step in the sector's multilateral liberalization. Even with limited liberalization to date, imports of textiles and apparel by industrialized countries have grown dramatically. With demand supported by rising incomes, the United States remains the world's largest retail consumer of textiles and apparel. However, with the ATC, the quantitative restrictions that have provided some protection to the U.S. textile and apparel industry are scheduled to end by 2005, opening the industry to greater worldwide competition (see box on pg. 35, "WTO's Agreement on Textiles and Clothing and NAFTA").

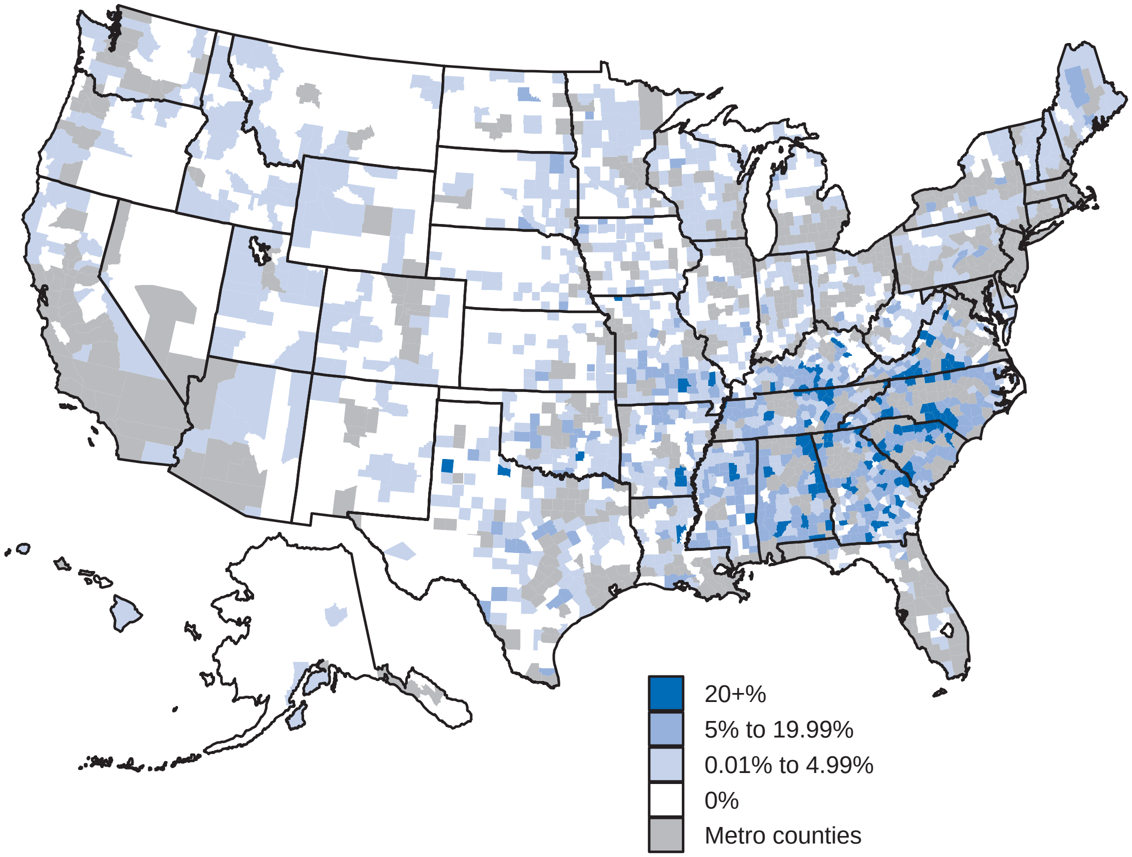
Prior to 1959, the United States exported more textile and apparel products annually than it imported. Since then, however, the United States has run a net trade deficit. In the early 1980's, textile and apparel exports fell significantly as real exchange rates made U.S. products more expensive overseas, while at the same time, imports surged as relatively lower priced imported products became available to U.S. consumers.

Since the implementation of NAFTA, the overall value of textile and apparel trade has continued to rise (fig. 2). While NAFTA alone is not responsible for all of the changes in U.S. textile and apparel trade in the 1990's, the agreement has certainly influenced trade. Over the past several years, U.S. trade has been shifting, not only in the source or destination of the products but also in the type of products that are traded. U.S. textile and

Figure 1

Textile and apparel: Jobs in textile and apparel manufacture as percentage of all jobs in the county, 1996

Southeastern counties are most dependent on textile and apparel manufacture



Source: ERS calculations using *County Business Patterns* data.

apparel imports consist largely of apparel items, which are labor intensive and can be produced at lower cost outside the United States. (see box on pg. 38, "Labor Costs Favor Developing Countries' Textile Trade").

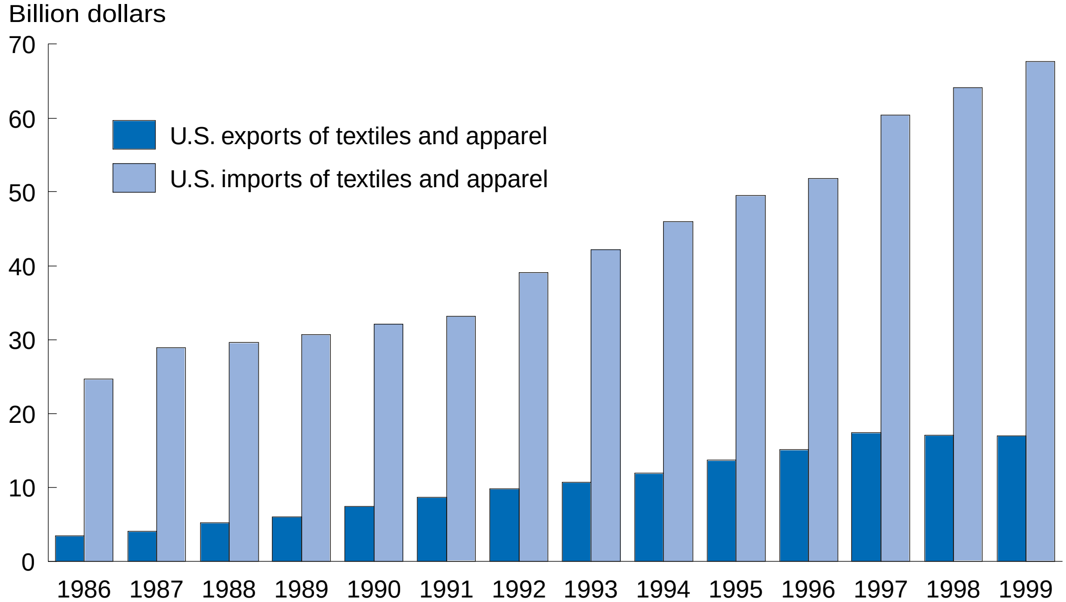
Apparel also accounts for a large share of U.S. textile and apparel exports, albeit much less so than with imports. With NAFTA, and the continued success of the Caribbean Basin Initiative—started in the 1980's to allow quota-free access for selected countries for products produced with U.S. fabric—apparel pieces increasingly have been exported to Mexico and the Caribbean for assembly before returning to the United States as finished apparel products.

NAFTA's direct impact on U.S. textile and apparel trade is difficult to quantify due to the lagged impacts of changes in Mexican textile trade policy during the 1980's, the peso devaluation that occurred shortly after NAFTA's implementation, and structural changes in Asian textile production and trade. In addition to increased textile and apparel trade with Canada and Mexico, U.S. trade with other North American countries (including Central America and the Caribbean) has expanded as well. In fact, all North American textile and apparel producers have benefited from a slowdown in shipments from traditional Asian exporting countries. In 1993, U.S. imports from North American countries accounted for only 20 percent of the total, while imports from Asian countries contributed about 64 percent. During 1999, data indicate that the North American share of U.S.

Figure 2

U.S. trade in textiles and apparel, 1986-99

U.S. imports have risen dramatically in the 1990's



Source: U.S. Department of Commerce, SITC classifications 65 and 84.

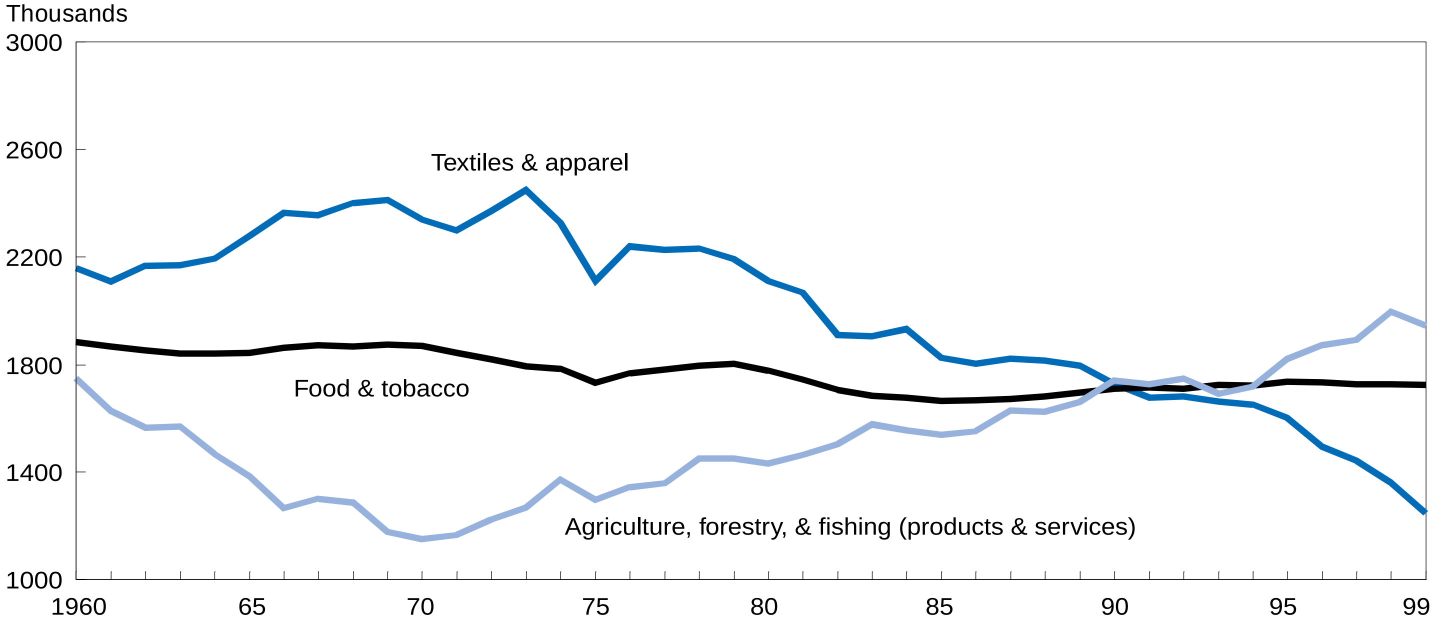
imports had doubled to 40 percent, while Asian imports as a percentage of the total declined to 48 percent.

Likewise, U.S. textile and apparel exports have expanded to North American countries since the start of NAFTA. Unlike Asia's import domination prior to 1994, North American countries (including the Caribbean, in this case) have historically accounted for the majority of U.S. exports. In 1993, 60 percent of all U.S. textile and apparel exports went to other North American countries, while 18 percent went to Asian countries. Since 1993, both the quantity and share of total U.S. shipments have risen dramatically to the North American region. During 1999, the North American share of U.S. textile and apparel exports reached 82 percent, while the share to Asia decreased to only 6 percent of U.S. shipments.

Declining Textile and Apparel Employment

All the changes discussed above, together with high productivity increases, have led to declining employment in the textile and apparel industries (fig. 3). In 1960, textiles and apparel provided 2.2 million jobs in the United States. At their 1973 peak, the industries had 2.45 million jobs. Although the number of jobs has generally fallen since then, after 1994 the drop-off accelerated, with only 1.25 million jobs left in 1999. Through the 1990's, these industries achieved high productivity growth, with the average annual growth at about 4 percent for both, double the productivity growth of all nondurable manufactured goods industries. The Bureau of Labor Statistics (BLS), in its recently released employment projections (U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, November 1999, or http://stats.bls.gov/emphome.htm), expects employment to continue to decline in these industries by 20.5 percent in total over 1998-2008 as a result of productivity increases in textiles and import competition in apparel, although output will continue to grow in both industries.

Figure 3
Jobs by industry, 1960-99
Textile and apparel jobs in decline since 1973



Source: ERS calculations using Bureau of Labor Statistics Current Employment Statistics and Current Population Survey data.

Large Numbers of Textile and Apparel Applicants Qualify for Trade Adjustment Assistance Programs

Multilateral trade agreements have expanded international trade, benefiting the United States. However, while the economy as a whole may benefit, certain sectors and worker groups within those sectors may bear the brunt of the adverse effects of liberalized trade. The Trade Adjustment Assistance (TAA) and NAFTA Transitional Adjustment Assistance (NAFTA-TAA) programs exist specifically to assist workers whose layoffs are determined by the Department of Labor to have been caused by trade. Assistance includes retraining, income support while in training, and job search and relocation allowances. The goal of these programs is to assist individuals in acquiring the skills necessary for them to obtain suitable reemployment. A worker group at a plant or a portion of a plant must be certified by the Department of Labor in order for workers in that group to be individually eligible to receive benefits. A petition seeking certification may be filed by three or more workers, their union, or by a company official on the workers' behalf. The FY 2000 appropriations include $349 million for the TAA program and $66 million for the NAFTA-TAA program.

Between January 1994 and September 1999, the Department of Labor granted certification to 6,282 worker groups under TAA (table 1), and about 40 percent were in nonmetro counties. Under the NAFTA-TAA program, about 40 percent of the certifications over January 1994-January 1999 were also in nonmetro areas (table 2). These nonmetro shares of certifications are double the nonmetro proportion of U.S. population and labor force, and also double the share of nonmetro establishments as a proportion of all U.S. establishments. The main reason for certification under NAFTA-TAA was that production at the affected companies shifted to Mexico.

By far, the largest group of certifications under TAA and under NAFTA-TAA was for the apparel and other textile products industries. For nonmetro areas, certifications of worker groups at apparel establishments made up 43 percent of nonmetro TAA certifications, and also made up 39 percent of all NAFTA-TAA certifications in the United States. Furthermore, about one-third of all nonmetro apparel establishments received worker-

WTO’s Agreement on Textiles and Clothing and NAFTA

International trade in textiles and apparel has been governed by quantitative restrictions under the Multi-Fiber Arrangement (MFA) and earlier agreements for more than 30 years. One of the major results of the Uruguay Round was the conclusion of the Agreement on Textiles and Clothing (ATC), which provides for the dismantling of these restrictions. Under the Uruguay Round ATC, the MFA restrictions are to be phased out over a 10-year period and are scheduled to end by the year 2005.

The ATC provides the legal framework leading to a complete integration of this sector into the General Agreement on Tariffs and Trade (GATT) at the end of the transition period. The MFA phaseout is comprised of two parts: a four-stage process eliminating export restraints contained in bilateral agreements previously negotiated on products covered under the MFA, and an increase in quota growth rates for products still under restriction during the transition period. The ATC also deals with other non-MFA restraint measures relating to textiles and clothing.

With the elimination of the MFA quotas and other restrictions, tariffs will become the primary mechanism for border protection as the same rules will apply to trade in textiles and clothing as in other goods. In the long run, the restraint reductions will effectively improve market access for developing countries’ textile and clothing products in developed countries. And at the same time, developed countries are already achieving the reciprocal access to developing countries’ textile and apparel markets that was lacking before the Uruguay Round Agreement (URA).

The North American Free Trade Agreement (NAFTA), implemented on January 1, 1994, began liberalizing trade and investment rules among the United States, Canada, and Mexico. The United States pursued NAFTA to secure its relationship with Canada and Mexico, promote economic stability in both countries, and lock in policy reforms and trade gains achieved since the mid-1980’s. NAFTA encompasses the Canada-U.S. Free Trade Agreement, which began in 1989, and builds on the “Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations” between the United States and Mexico, which began in 1987.

Structural changes resulting from trade liberalization have developed over the last several years, but any assessment of the impact of NAFTA must recognize that it is only one of several factors that have influenced North American agricultural markets. Trade liberalization with NAFTA and domestic policy reforms in the United States, Canada, and Mexico are part of a broader global trend toward more market-oriented policies. All three countries have recently adopted fundamental domestic agricultural policy reforms, and the effects of these changes are sometimes difficult to separate from the direct effects of NAFTA trade reforms.

For textile products, the United States reduced tariffs and expanded quota-free access for items constructed from yarn and fiber produced by a NAFTA country. Starting in 1998, all duties on textile goods between the United States and Canada that qualify under NAFTA were eliminated. By 1999, over 95 percent of the U.S. duties on Mexico’s textile goods that qualify under NAFTA rules of origin were eliminated, and at the same time, over 90 percent of Mexico’s duties on U.S. textile exports that qualify were eliminated.

Information on Trade Assistance Programs

For more information on TAA and NAFTA-TAA, see U.S. Department of Labor Employment and Training Administration, http://www.doleta.gov.

Two other trade assistance programs not discussed in this article are (1) technical assistance to employers through the Trade Adjustment Assistance Program (see Department of Commerce’s web site, http://www.doc.gov, and look under Economic Development Administration), and (2) the North American Development Bank, see http://www.nadbank.org.

Table 1

Trade Adjustment Assistance Program Certifications, January 1994-September 1999

The apparel industry had the most certifications

Industry	Nonmetro Certifications	Nonmetro Rate[1]	Metro Certifications	Metro Rate[1]	Total U.S. Certifications[2]	Total U.S. Rate[1]
	Number	Percent	Number	Percent	Number	Percent
Agriculture, forestry, and fishing	7	0.03	5	0.01	12	0.01
Mining	376	3.30	613	4.56	1,435	5.78
Manufacturing—total	1,855	2.23	3,091	1.04	4,758	1.25
Food and kindred products	13	.22	57	.37	70	.33
Tobacco products	0	.00	1	.92	1	.74
Textile mill products	126	6.44	175	3.94	301	4.70
Apparel and other textile products	965	27.20	1,007	4.86	1,986	8.18
Lumber and wood products, except furniture	141	.68	46	.27	191	.51
Furniture and fixtures	24	1.00	32	.34	56	.47
Paper and allied products	24	2.24	49	.89	73	1.11
Printing, publishing, and allied industries	8	.08	19	.04	27	.04
Chemicals and allied products	15	.80	82	.78	97	.78
Petroleum refining and related products	10	2.24	15	.90	25	1.18
Rubber and miscellaneous plastics products	25	.81	69	.51	93	.56
Leather and leather products	98	19.92	127	8.78	227	11.71
Stone, clay, glass, and concrete products	16	.32	77	.66	118	.71
Primary metal industries	34	2.58	91	1.68	125	1.86
Fabricated metal products	38	.67	106	.34	144	.39
Industrial and commercial machinery, and computer equipment	42	.39	213	.46	290	.51
Electronic and other electrical equipment	151	7.02	302	2.01	479	2.79
Transportation equipment	51	1.81	104	1.14	158	1.33
Measuring, analyzing, controlling instruments	35	3.34	107	1.03	143	1.25
Miscellaneous manufacturing industries	39	1.43	115	.73	154	.84
Service sector and construction	16	.00	28	.00	77	.00
Total	2,254	.17	3,447	.06	6,282	.09

[1]TAA certifications as a percentage of all establishments.

[2]Total U.S. includes certifications in nonmetro and metro, and also certifications for worker groups at companies with the location, “all locations,” at companies certified in Puerto Rico, and at companies in cities that could not be identified as metro or nonmetro. Consequently, U.S. totals may be larger than the sum of nonmetro and metro.

Source: Calculated by ERS using data from Employment and Training Administration, U.S. Department of Labor, and from Enhanced County Business Patterns data, 1996.

Table 2

NAFTA-Transitional Adjustment Assistance Program Certifications, January 1994-January 1999

Nonmetro areas led metro areas in apparel certifications

Industry	Nonmetro Certifications	Nonmetro Rate[1]	Metro Certifications	Metro Rate[1]	Total U.S. Certifications[2]	Total U.S. Rate[1]
	Number	Percent	Number	Percent	Number	Percent
Agriculture, forestry, and fishing	9	0.04	10	0.01	19	0.02
Mining	16	.14	17	.13	58	.23
Manufacturing—total	658	.79	995	.33	1,663	.44
Food and kindred products	4	.07	25	.16	29	.14
Tobacco products	0	.00	0	.00	0	.00
Textile mill products	26	1.33	44	.99	69	1.08
Apparel and other textile products	270	7.61	259	1.25	531	2.19
Lumber and wood products, except furniture	100	.48	30	.18	134	.36
Furniture and fixtures	6	.25	16	.17	22	.18
Paper and allied products	17	1.59	24	.44	41	.62
Printing, publishing, and allied industries	4	.04	12	.02	16	.03
Chemicals and allied products	7	.37	28	.27	35	.28
Petroleum refining and related products	1	.22	1	.06	2	.09
Rubber and miscellaneous plastics products	15	.48	38	.28	53	.32
Leather and leather products	26	5.28	28	1.94	55	2.84
Stone, clay, glass, and concrete products	8	.16	27	.23	35	.21
Primary metal industries	8	.61	28	.52	36	.54
Fabricated metal products	22	.39	68	.22	91	.25
Industrial and commercial machinery, and computer equipment	19	.18	60	.13	79	.14
Electronic and other electrical equipment	78	3.63	164	1.09	244	1.42
Transportation equipment	27	.96	52	.57	79	.66
Measuring, analyzing, controlling instruments	14	1.33	57	.55	72	.63
Miscellaneous manufacturing industries	6	.22	34	.22	40	.22
Service sector and construction	9	.00	36	.00	52	.00
Total	692	.05	1,058	.02	1,792	.03

[1]NAFTA-TAA certifications as a percentage of all establishments.

[2]Total U.S. includes certifications in nonmetro and metro, and also certifications for workers groups at companies with the location, “all locations,” “various locations,” or “Throughout the state,” and at companies in cities that could not be identified as metro or nonmetro. Consequently, U.S. totals may be larger than the sum of nonmetro and metro.

Note: Many worker groups petition for and are certified under both the TAA and NAFTA-TAA programs. Thus, number of worker groups certified under these programs cannot be added together. Approximately 75 percent of the worker groups certified under the NAFTA-TAA program are also certified under TAA.

Source: Calculated by ERS using data from Employment and Training Administration, U.S. Department of Labor, and from Enhanced County Business Patterns data, 1996.

Labor Costs Favor Developing Countries' Textile Trade

An important generalization applies to textile and apparel trade between the United States and Mexico, and this generalization applies to trade between the United States and other developing countries as well. Apparel production is one of the least capital-intensive industries in the world. Since every developing country has a domestic market for apparel as well as low-wage labor to produce it, developing countries largely supply their own apparel. However, during the last 30 years, developed-country imports of apparel have risen significantly, further increasing the size of the markets available to developing-country apparel producers. Institutions like the co-operative buying offices of U.S. department stores and Japanese trading firms facilitate access to export markets. Thus, the comparative advantage of developing countries in producing apparel has resulted in increasing developing-country exports.

Virtually every country that has successfully industrialized has in part begun this process with its textile industry. As industrialization progresses, other industries grow in prominence, and outcompete textiles for labor and other inputs. Thus, the world's largest importers of textiles are almost exclusively the highest income developed countries and the world's largest exporting countries are among the lowest in income. According to the WTO, the largest textile and apparel deficits are in the United States, the European Union, Japan, Canada, and Switzerland. In contrast, the largest surpluses are achieved by China, Korea, Taiwan, India, and Hong Kong.

During the 1990's, each major deficit country or region integrated its textile industry with neighboring surplus regions. The United States integrated with Mexico and the Caribbean Basin, exporting fabric and apparel pieces and importing completed apparel and other final goods. Similarly, the EU increasingly integrated with Eastern Europe and the Mediterranean countries, while Japan pursued integration with Southeast Asia and China.

group certification under the two programs. The average number of employees affected at the certified nonmetro apparel establishments was over 100 employees for both programs. Some nonmetro establishments had over 500 employees who were affected. The textile industry also had a sizable number of certifications in nonmetro areas, 126 under TAA and 26 under NAFTA-TAA.

Trade Liberalization Benefits Agriculture, Food Processing, and Tobacco Products

Although the U.S. textile and apparel industries face stiff import competition with trade liberalization, other industries important to nonmetro areas have expanded and have, in some cases, bucked the U.S. trend of declining manufacturing employment. For example, the U.S. agriculture industry and the food processing and tobacco products industries have flourished with the opening of world markets. These industries are similar to the textile and apparel industries in that they are disproportionately nonmetro, geographically concentrated, and the jobs are generally low-skill.

Looking at employment trends in these industries (fig. 3), agriculture has seen an increase in jobs, due to increases in employment in agricultural services, especially in landscaping and horticultural services, which are not significantly involved in trade. Due to technological progress, U.S. production agriculture has been able to increase output with fewer workers. Consequently, the number of workers in production agriculture has declined over the 1990's. BLS expects that the number of workers in agriculture will stay level over 1998-2008, although they see a decline in the number of workers in production agriculture and an increase in agricultural services employees. Employment in agriculture is disproportionately nonmetro (table 3). The Great Plains in particular has many nonmetro counties with high percentages of jobs in agriculture (fig. 4).

Food processing and tobacco products have held their own in terms of number of jobs over the last 40 years, even in the face of declining employment in manufacturing. With productivity increases, these industries are producing more and exports have increased. Even during the recent global financial crisis, these products and other high-value agricul-

Table 3

Demographic and job characteristics of trade-sensitive industries, 1999

Some characteristics vary substantially across the three industries

	Textiles & apparel		Food & tobacco		Agriculture		Total U.S.	
	Nonmetro	Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro	Metro
				Thousands				
Number of workers	400	830	606	1,069	615	1,304	21,496	101,550
Demographic characteristics:				Years				
Average age	40.5	40.0	37.9	39.9	38.0	34.6	39.2	38.6
				Percent				
Male	43.6	42.5	65.2	68.6	76.4	72.8	52.3	52.9
Race:								
White	71.9	75.0	79.3	80.4	92.4	93.2	89.9	82.3
Black	26.3	11.2	17.0	14.6	5.4	3.6	7.9	12.6
Other	1.8	13.8	3.7	5.0	2.2	3.2	2.3	5.1
Hispanic	4.0	31.6	22.8	19.1	16.2	39.9	4.8	11.8
Citizen	97.9	65.1	86.0	85.3	89.8	68.0	98.0	91.6
Household income:								
Less than $15,000	15.6	19.0	18.0	8.6	24.2	21.7	12.8	8.9
Job characteristics:								
Full-time schedules	95.7	93.6	96.2	93.2	80.3	81.2	81.9	82.6
Union member	5.6	7.5	20.4	23.3	1.4	2.8	12.0	13.7
Low-skill occupation	78.7	72.7	78.4	69.6	72.5	75.4	58.9	50.8
				Dollars				
Median hourly earnings	9.02	8.56	10.00	12.50	7.58	7.75	10.25	12.50

Note: Only wage and salary civilian employed, age 16 or older included. Agriculture includes agriculture, forestry, and fishing, both production and service workers. Total U.S. includes all industries. Totals may not add to 100.0 due to rounding. Hispanics may be of any race. A full-time schedule is 35 or more hours a week. Hourly earnings computed by dividing usual weekly earnings by usual weekly hours; included are tips, overtime, and commissions.

Source: ERS calculations using the 1999 CPS Earnings files.

tural products were able to maintain their prices and experienced continued high export demand. BLS expects employment in these industries to continue to increase, albeit slightly, with 1.4 percent growth over 1998-2008. In 1999, they provided employment to 1.7 million workers, with 36 percent residing in nonmetro areas, making this workforce disproportionately nonmetro. In addition, jobs in these industries are somewhat geographically concentrated in the Southeast and the Midwest (fig. 5). Most of the nonmetro jobs are in food processing, as tobacco products manufacturing is primarily located in metro areas. Many nonmetro counties have a high dependence on these jobs, with 20 percent or more of the county’s jobs in these industries. In the Southeast, the food processing is mainly in poultry, peanuts, and cottonseed oil; in the Ozarks, chicken broilers, eggs, and rice; in the Midwest, meat, sugar, dairy, oil, turkeys, and frozen vegetables; and in the West, meat, sugar, potatoes, fruit, wine, nuts, raisins, and seafood.

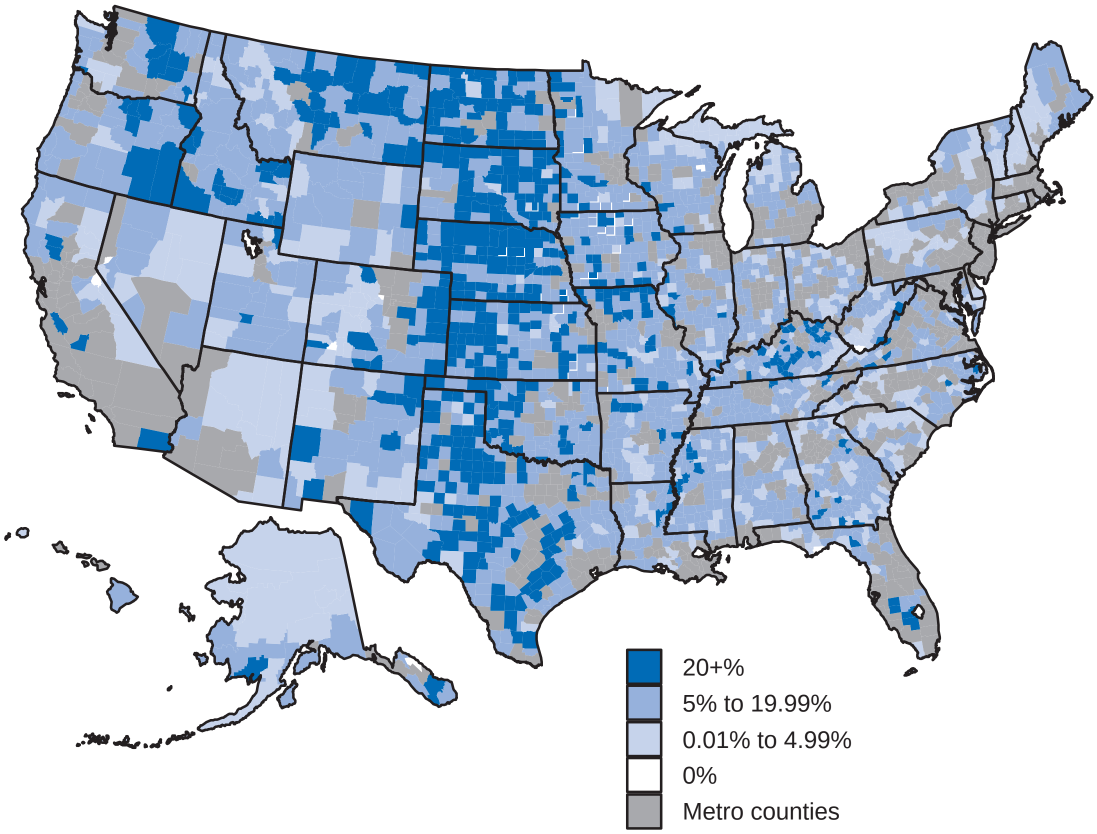
Looking Ahead

The textile and apparel industries are clearly undergoing a deep restructuring. This means that many, if not most, dislocated apparel workers who find a new job will do so in

Figure 4

Production agriculture and agricultural services: Jobs in agriculture as a percentage of all jobs in the county, 1996

The Great Plains counties have a high dependence on agriculture jobs



Source: ERS calculations using Bureau of Economic Analysis data.

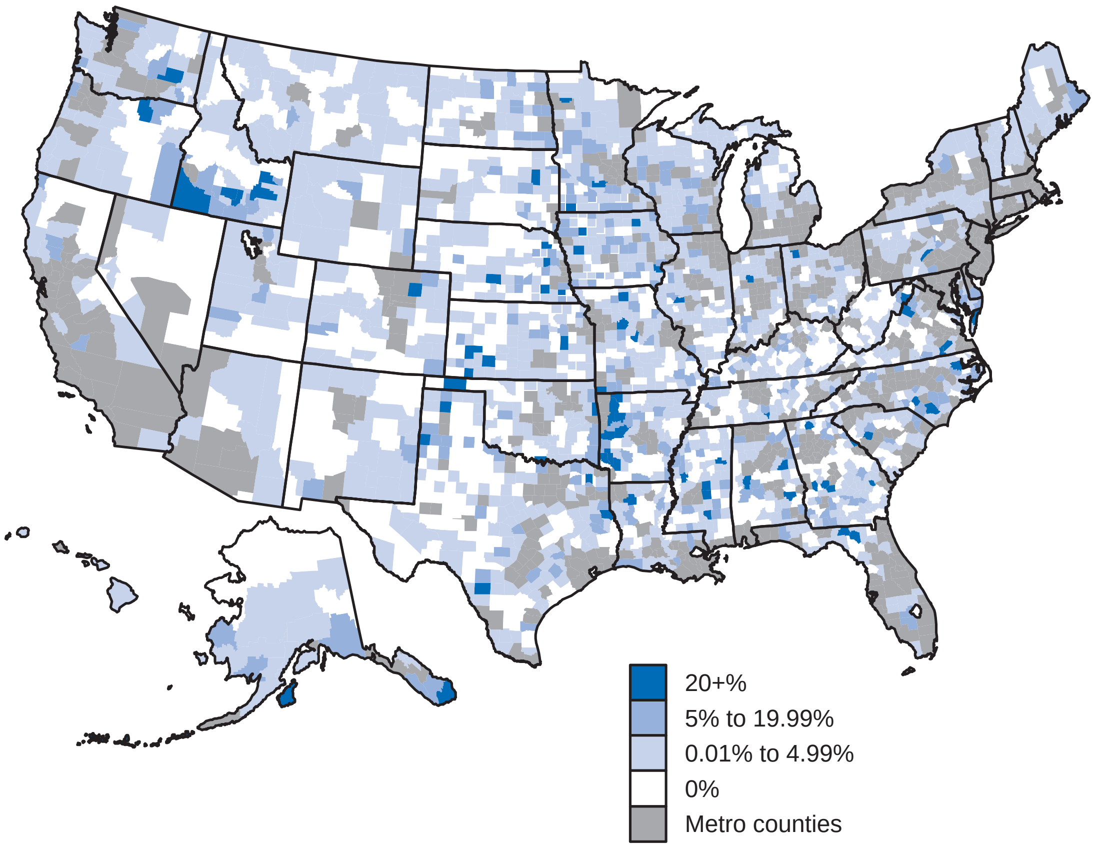
another industry or occupation. The burden of this adjustment due to increased productivity and increased sourcing from outside the United States is falling disproportionately on nonmetro workers. Under the WTO's ATC, the long-standing textile and apparel quotas developed under the Multifiber Arrangement (MFA) are scheduled to grow at accelerated rates through 2004, and subsequently disappear. This arrangement will mean U.S. imports from WTO members will face fewer barriers than has been the case in the past, and are likely to grow. Apparel imports in particular would be expected to respond to reduced barriers, while it is possible that textile exports could increase with growing opportunities to supply inputs to developing-country apparel producers. Consequently, nonmetro areas will continue to depend on trade adjustment assistance to transition workers and communities to other industries and occupations as increased textile and apparel import competition results in further industry restructuring. However, increasingly open and growing global markets suggest processed food and tobacco exports will grow, providing opportunities for nonmetro employment.

[Data as of 3/28/00. Karen S. Hamrick, 202-694-5426, Khamrick@ers.usda.gov; Stephen A. MacDonald, 202-694-5305, Stephenm@ers.usda.gov; Leslie A. Meyer, 202-694-5307, Lmeyer@ers.usda.gov]

Figure 5

Food and tobacco: Jobs in food processing and tobacco products as a percentage of jobs in the county, 1996

Counties in the Southeast and Midwest have a high dependence on food processing and tobacco products jobs



Source: ERS calculations using *County Business Patterns* data.

Legislation Makes Major Changes in Acceptable Combinations of Financial Firms

The Gramm-Leach-Bliley Act of 1999 eliminates Depression-era constraints on mergers of banks, securities firms, and insurance companies, making it easier for a single firm to supply a wide array of financial services to consumers and businesses. The legislation also allows most rural banks to join the Federal Home Loan Bank System for access to long-term funds that can be loaned for housing, agriculture, and small business purposes.

President Clinton signed Public Law 106-102, the Gramm-Leach-Bliley Act of 1999 (GLB), into law on November 12, 1999. This legislation reforms the financial industry by allowing banks, securities firms, and insurance companies to merge so that consumers and businesses can purchase all of their financial services from the same company. GLB also addresses other issues of concern to rural lenders, businesses, and consumers, such as access by rural banks to funds from the Federal Home Loan Bank System, moving rural deposits to urban areas, combining commercial firms and banks, and privacy of personal financial information.

Restructuring the financial sector took years of effort by the administration, Congress, financial regulators, consumer groups, and trade organizations representing various sectors of the financial services industry. Several issues almost derailed the legislation even after its basic framework was generally agreed upon. Conflicts arose among the banking, insurance, and securities industries, between regulators, and between small and large banks. Members of Congress with different views disputed issues such as the Community Reinvestment Act and whether to allow banks and industrial corporations to also buy each other. Many small banks and other observers argued that some proposals would concentrate economic power in a few giant, noncompetitive firms.

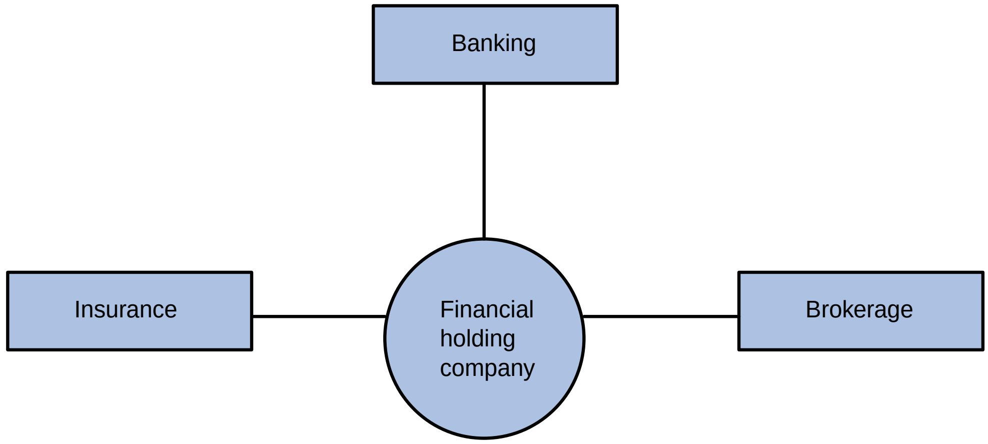
Combining Banks, Securities Firms, and Insurance Companies

The Gramm-Leach-Bliley Act is best known for allowing banks, securities firms, and insurance companies to buy each other. GLB repealed the provisions of the Glass-Steagall Act of 1933 and amended other legislation that prohibited combinations of banks, securities firms, and insurance companies. The Glass-Steagall Act was a response to the Great Depression of 1929. Many people still feel that these sorts of mergers create large firms that tend to neglect small businesses and consumers who are not wealthy or result in conflicts of interest that are harmful to consumers.

Letting commercial banks affiliate with other financial firms enables banking organizations to compete effectively in a financial world that continues to evolve rapidly. Large banks compete in world markets against foreign institutions that face fewer restrictions on bank activities. Rural banks contend with the Farm Credit System to make agricultural loans. Small banks compete against large banks for certain services. For example, large banks market credit cards nationally through the mail, and some are starting to apply similar methods in financing small businesses. Banks of all sizes also compete with other financial institutions and nonfinancial firms to provide financial products. Commercial lending used to be dominated by commercial banks, but today large corporations routinely obtain financing directly and at lower cost from the capital markets by selling commercial paper (unsecured short-term notes). Manufacturers of automobiles and farm equipment have their own finance subsidiaries. Consumers invest in money market funds, mutual funds, and brokerage accounts in place of traditional bank checking and savings accounts.

Citigroup was created prior to GLB by the 1998 merger of Citicorp and Travelers Group, but the insurance portion of the company would eventually have had to be sold if bank reform legislation had not passed. GLB will likely lead to other mergers in the next several years that combine giant firms in the banking, brokerage, and insurance industries (fig. 1). But rural community banks will not necessarily lose many customers to these conglomerates. People often prefer dealing with small, locally owned businesses, provided this does not result in lower quality service and products or significantly higher prices. GLB also permits banks, including community banks, to offer new products and services to their customers. For example, community banks can form subsidiaries that enter into joint ventures with other banks and thrifts to sell financial services, rather than trying to go it alone

Figure 1
New financial combinations allowed
New legislation allows for one company to provide banking, insurance, and brokerage services



Source: USDA, Economic Research Service.

through their own holding company affiliates. This should help small rural banks to profitably provide their customers with a wide range of financial products, rather than having to recommend other firms for some services. Technology allows small banks to provide advanced services such as Internet banking, since this technology can be acquired at a reasonable cost from third-party providers rather than developed in-house.

The Bank Holding Company Act of 1956 prevented combinations of financial and commercial firms, positing that banks may favor businesses in which they have made equity investments. Banks might even continue to lend large sums to dying firms to maintain the value of their equity investments. This has been observed in countries such as Indonesia, Korea, and Japan. Hence, GLB maintains the prohibition against combining financial and commercial firms, though this issue may surface in coming years.

GLB also addresses the fact that companies that control a single savings and loan institution (unitary thrift holding companies) are able to mix banking and commerce. Reports that Wal-Mart was planning to acquire a unitary thrift galvanized opposition from the banking industry and others. GLB declares that no new unitary thrifts can be created and that no more commercial firms can purchase existing unitary thrifts. While rural banks avoid some potential new competition, rural borrowers lose the possible benefits of that same competition.

Access to Federal Home Loan Bank Advances

The most important feature of GLB for rural lenders and borrowers may be Title 6, the Federal Home Loan Bank System (FHLBS) Modernization Act of 1999. This act makes it easier for most rural banks to join the FHLBS and access funds for lending to farmers and other rural businesses.

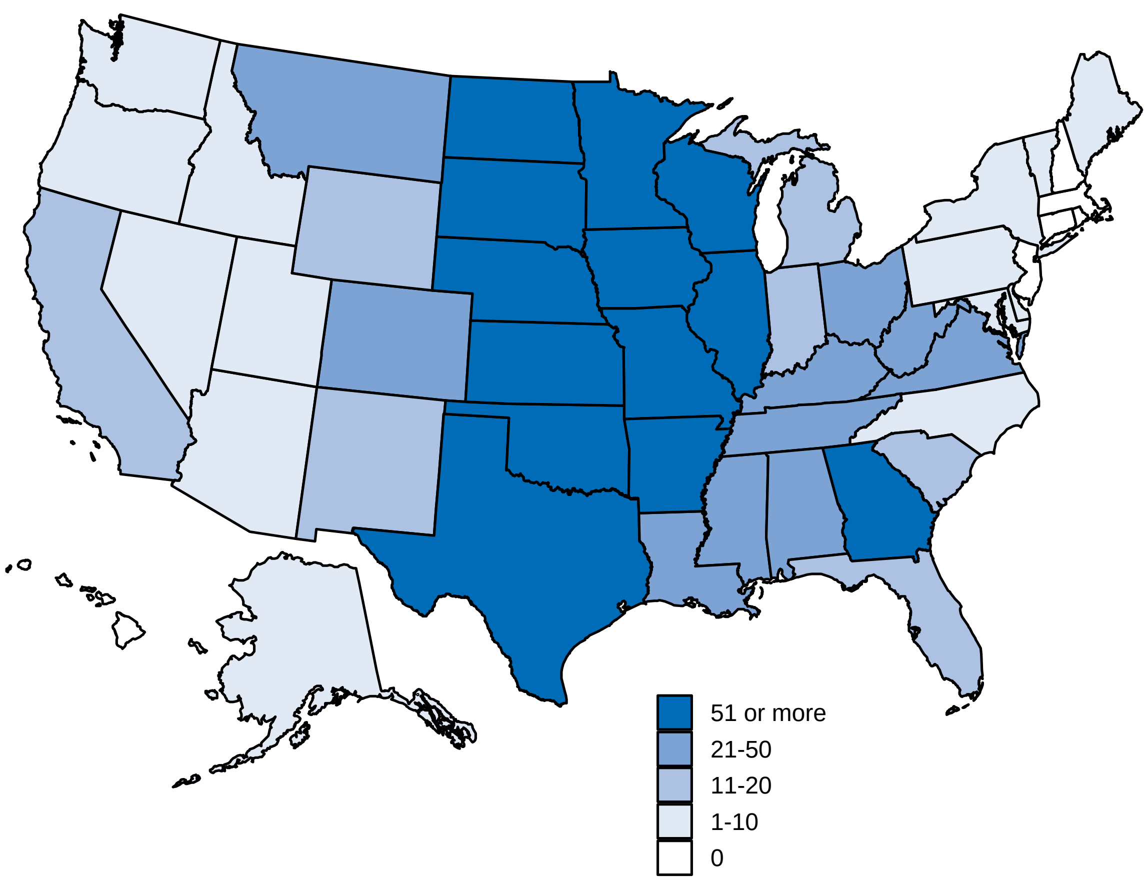
The FHLBS originally served savings and loans (S&L's) and other thrift financial institutions, which primarily made mortgage loans and were required to join the FHLBS. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 permitted commercial banks to join, provided they met requirements concerning the extent of their mortgage lending business. The FHLBS District banks make loans (called advances) to their members, giving banks and S&L's funds to make additional mortgage loans. Advances are a stable, national, longer term source of funds, versus local deposits that can be withdrawn at any time. This helps to mitigate the maturity mismatch between short-term deposits and long-term mortgages, which crippled many financial institutions in the 1980's when interest rates paid by banks and S&L's to their depositors exceeded rates charged on mortgages made a few years earlier.

The new legislation further extends the Federal Home Loan Bank System so that banks with less than $500 million in assets can use small business and agricultural loans in addition to mortgage loans as collateral for FHLBS advances. Many small banks are in rural areas and have achieved higher loan-to-deposit ratios in recent years. Whether this is due to slow deposit growth or rapid loan growth, some banks may welcome and need an alternative to deposits so that they can fund additional loans. At the end of 1998, 4,925 of the 8,757 insured commercial banks were already FHLBS members. Of the remaining nonmember banks, the 2,165 rural banks with assets under $500 million, many located in the farm States in the center of the country, are now eligible to join FHLBS unless they are disqualified on safety and soundness grounds (fig. 2). These banks are not all newly eligible—some chose not to join even though they met previous mortgage loan requirements. But the expanded collateral makes it likely that many nonmembers will rethink their decisions.

Figure 2

Rural banks that were not members of the Federal Home Loan Bank System at the end of 1998

Many more rural banks throughout the country can join the Federal Home Loan Bank System



Source: Calculated by ERS using data from the Federal Housing Finance Board and the Federal Reserve Bank of Chicago.

While expanded access to the FHLBS should benefit rural banks and their loan customers, depositors at some rural banks may see moderately lower interest rates on their bank deposits. Banks that had secured additional loanable funds by increasing interest rates paid on consumer deposits might now obtain FHLBS advances instead.

Rural Deposits, Loans, and the Community Reinvestment Act

Some rural advocates argue that large urban-based banks use their rural branches mainly as a source of low-cost deposits that are loaned more profitably elsewhere. While the extent of such behavior remains an open question, GLB addresses the issue from two directions. Bank holding companies are prohibited from using any of their branch offices to gather deposits with no real intention to make loans in those communities. GLB applies the Community Reinvestment Act (CRA)—depository institutions (banks and thrifts) must serve all segments of their communities—to depository institutions owned by the new financial holding companies created under the legislation.

While CRA is often associated with redlining in low-income areas of large cities, 1995 revisions enhance its potential importance for rural communities. Large banks must provide annual data on loans to small businesses and farms for each market in which they make loans. Evaluating whether a financial institution made "enough" loans in a particular market is quite difficult, since specific firms may specialize in distinct segments of the credit market and no data are available to describe the total amount of creditworthy demand for loans. Still, the reporting requirement will likely ensure that large banks do not simply ignore rural borrowers in communities where they have bank offices.

Small banks argue that community banks by definition serve all segments of their communities and consider compliance with CRA a costly drain on their resources. Rather than justifying their lending performance, bank officers argue they could better spend their time by making more loans. One initial version of the GLB would have exempted rural banks with less than $100 million in assets from CRA. In one of the critical compromises that allowed passage of GLB, the final legislation does not exempt any banks, but lengthens the period between CRA examinations to 5 years for small banks with outstanding ratings and to 4 years for those with satisfactory ratings. Further, details of CRA-related agreements between banks and community activists will be publicized and the Federal Reserve must perform a study to analyze the effects of CRA.

Regulating Financial Institutions

Officials at the Federal Reserve Board (Fed) believe that Federal deposit insurance funds would be further safeguarded if banks wishing to enter insurance and securities industries would provide their newly authorized financial services through nonbank affiliates of their parent bank holding companies (BHC's). The Department of Treasury and the FDIC argued that the same degree of safety could be achieved if banks provide these services through subsidiaries of the banks themselves. These agencies also noted that a subsidiary supports the parent bank, while pushing activities to a holding company draws capital out of the bank. This point may seem technical, but serious problems with the Farm Credit System and numerous failures of many rural banks and thrifts during the 1980's and early 1990's demonstrate that rural communities cannot disregard proper regulation of financial institutions.

A BHC owns one or more banks and possibly other firms that do things such as processing checks or providing discount brokerage. For services offered through nonbank affiliates, the Fed would maintain an important role since it supervises BHC's. The agencies compromised by allowing banks to provide most activities through either holding company affiliates or bank subsidiaries. But only holding company affiliates may underwrite insurance (both can sell insurance) or make speculative equity investments (merchant banking investments).

Insurance Sales

Some rural jobs may be lost since large banks will no longer have to base certain insurance operations in small towns. As interpreted by the Supreme Court and Federal regulators, Section 92 of the National Bank Act allows national banks with branch offices in towns of fewer than 5,000 inhabitants to sell insurance by acting as agents of licensed insurance companies. Policies could be sold to people living elsewhere, but the bank's insurance agents really had to work from the local office. Powers granted to national banks often apply to State-chartered banks as well, because in many cases States pass laws permitting their State-chartered banks to match the services of national banks. Banks that qualify for the small-town exemption may continue to use it. But GLB allows banks to sell insurance from any location, either in an affiliate of its holding company or in a subsidiary of the bank. Thus, some banks may transfer their existing insurance operations to large cities.

Privacy Concerns

Increasingly frequent media reports about hackers breaking into computer systems to steal lists of credit card numbers, and detectives obtaining checking account information by pretending to be someone else, have created serious concerns about the privacy of financial information. On top of this, legitimate companies sell information gleaned from customer accounts. A backlash against this activity led to a privacy provision in GLB. But this issue is not completely one-sided. Many of us hate getting junk mail or unsolicited phone calls, unless the product or service being sold is something that we want. And the concept of a financial holding company is predicated on being able to market and sell a variety of financial services to consumers and businesses.

Debate over this area revolved around two points of contention: (1) the distinction between selling information to non-affiliated firms versus providing it to affiliates or subsidiaries of the bank; and (2) whether the default approach would be for information to be distributed to other parts of the firm and sold to other corporations only if consumers requested that to occur (opt-in), or to allow a bank to market customer information elsewhere unless the customer says not to do so (opt-out). The final GLB Act compromise uses an opt-out approach for sales to other companies but permits information transfers to other parts of the organization.

A New Financial World?

It remains to be seen whether financial conglomerates created under the reform legislation will succeed. The concept of a financial supermarket has been around for many years, but previous attempts by firms such as Sears to actually operate them were not considered very successful. Financial supermarkets stress cross-selling of other financial products. For example, bank tellers and inserts in monthly statements inform us about computer banking, home equity loans, debit cards, and brokerage accounts. While most people purchase their main computer software applications as an office suite, it is too soon to say whether that will prove true for financial services.

Technological advances may both help and hinder these efforts. Technology can support efforts at cross-selling a variety of banking, insurance, and investment products. When someone calls or visits a bank branch, or even uses an ATM, the bank will quickly call up information about the customer's current accounts with the bank, and suggest additional services that similar customers have purchased. If bank customers are convinced that these services are priced competitively, provided in a safe and efficient manner, and that they can save time by doing all of their financial shopping in a single location, financial holding companies may succeed.

But technology also empowers consumers to search for price information from firms throughout the country and to acquire financial and other products without leaving home. Internet financial web sites present an alternative model to the financial supermarket. By clicking on various links, consumers can select an online brokerage firm, request quotes for mortgage loans and life insurance, and perform many banking functions through the web site of their banks. Financial giants such as Citigroup might be among the companies offering services over the Internet, but specialized banks, insurance companies, and brokerage firms can also compete for specific services. *[Daniel Milkove, 202-694-5357, dmilkove@ers.usda.gov]*

Recent Changes Advance New Markets and Livability Initiatives

The New Markets initiative boosts the economies of places left out of the 1990's expansion. The Livability initiative promotes smart-growth policies, preservation of natural amenities, and other locally based policies addressing growth and quality-of-life issues. Both initiatives draw on relatively new programs that have grown recently.

In January 1999, the Clinton administration included in its budget proposals for fiscal year 2000 two initiatives with significant implications for rural development: the New Markets and Livable Communities initiatives. The New Markets initiative is aimed at stimulating development in economically distressed areas. The Livable Communities (or Livability) initiative addresses sprawl, congestion, pollution, crime, and other quality-of-life issues that are important for community and economic development. Although Congress did not act on most of the main proposals associated with these initiatives in 1999, progress has been made in implementing parts of these initiatives, which continue to be featured in the President's budget for 2001.

Both initiatives derive in large part from the long economic expansion of the 1990's, which has produced uneven results, as some places have grown rapidly while others still suffer high unemployment or population decline. Rural America is diverse, containing both types of places: those trying to cope with rapid growth (such as in the West and Rocky Mountains) and those still struggling with economic stagnation or decline (such as in the northern Great Plains and in parts of the Mississippi Delta and Appalachia). Some rural areas on the Southwest border are simultaneously experiencing both problems (fig. 1).

The New Markets Initiative

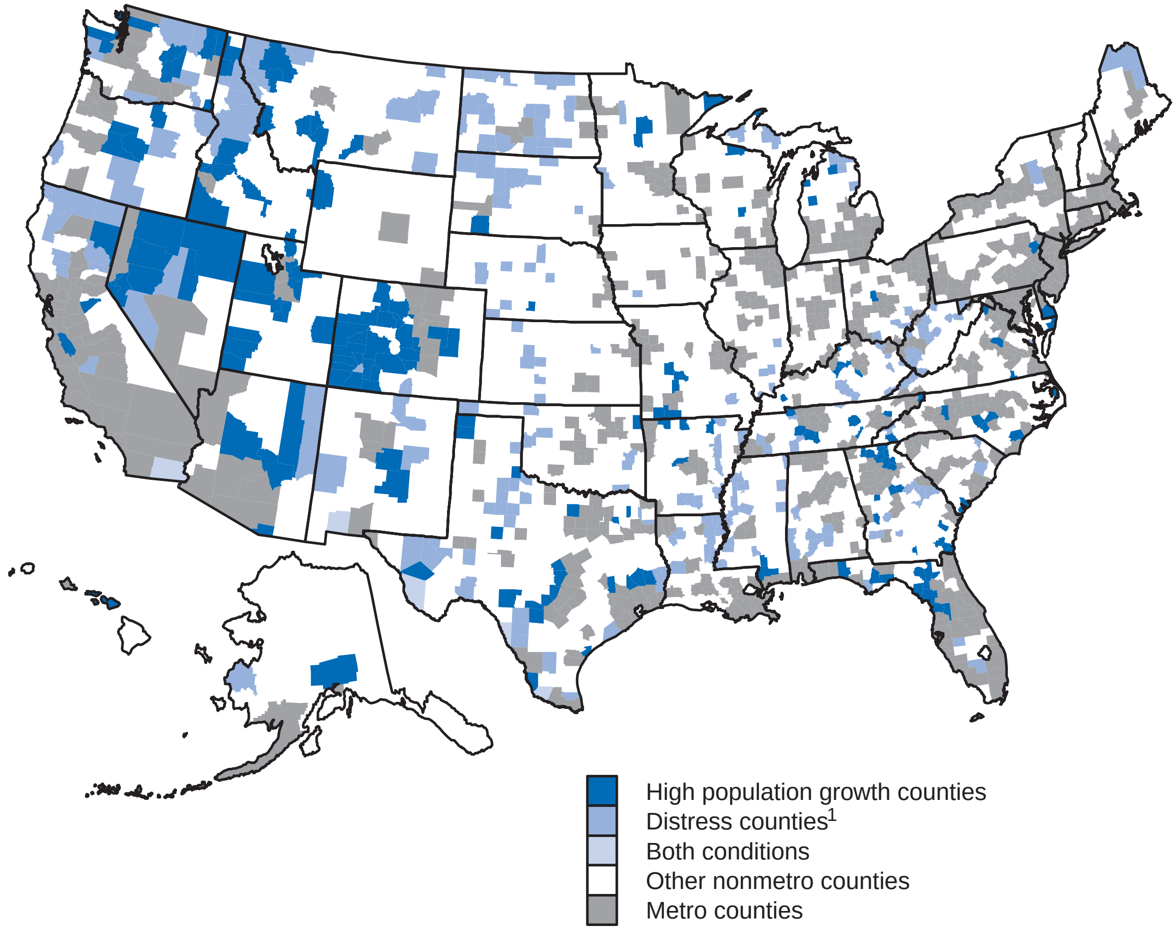
The U.S. economy has grown so rapidly in recent years that labor shortages are surfacing in many areas, threatening to limit economic growth and increase inflation. The New Markets initiative would provide tax and credit incentives and other forms of business assistance to encourage the private sector to invest more in distressed inner cities, rural areas, and Indian reservations. These are "new markets" in that many firms have overlooked them while expanding elsewhere. They may also be underserved by capital markets because they have underutilized labor and land and are short of capital needed to put those resources to use. Given the current robust economy, now may be an ideal time to try to direct capital and technical assistance to these places. If successful, this initiative would (1) increase national economic growth by tapping underutilized resources, and (2) increase economic equity by providing more jobs and income to high-poverty areas.

Targeting Federal assistance to distressed areas is not new. Many long-established Federal development programs directed by the Economic Development Administration (EDA), USDA's Rural Development mission, and the Appalachian Regional Commission (ARC) particularly benefit distressed areas. However, the New Markets' focus on tax incentives, business credit, and technical assistance for distressed areas is relatively new, building on some recently created programs that have grown in recent years.

The administration has proposed to expand the Empowerment Zones and Community Development Financial Institutions programs. In addition, several Small Business Administration (SBA) programs (General Business Loans 7(a), BusinessLINC, Microenterprise Loans, and Small Business Investment Companies) would be expanded and/or retargeted to provide more lending and technical assistance to small businesses in underserved areas. In addition, two new SBA programs—PRIME (Program For Investment in Micro-Entrepreneurs) and the New Markets Venture Capital Companies (NMVC) program—would be established.

A new program—America's Private Investment Companies, to be administered by Housing and Urban Development (HUD)—would provide equity capital for large businesses creating or relocating activity in underserved areas. Another proposed HUD program would fund University Partnerships in 10-12 business and law schools to foster business development in low- to moderate-income areas. Related proposals include the creation of

Figure 1
Rural places with economic distress (1998) and high population growth (1990's)
New initiatives are particularly important for rural places with high unemployment and/or rapid growth



[1]Economic distress consists of unemployment greater than 10 percent (in 1998) or population decline (1990-98) greater than 10 percent.

Source: Calculated by ERS using data from the Bureau of the Census and the Bureau of Labor Statistics.

1,000 community technology centers in low-income areas, assistance for distressed farmers, an increase in funding for Native American programs, and the creation of a new Delta Regional Authority that would draw on the resources of a Federal-State partnership to assist the Mississippi Delta region. The administration has also proposed a New Markets tax credit worth up to 25 percent for private investment in underserved areas.

The Clinton administration is not alone in making such proposals. For example, a 1999 House bill known as The American Community Renewal Act proposed to target various tax incentives to distressed urban and rural areas. While it is premature to speculate on the prospects of these and other similar proposals, we can review how programs have already been created, expanded, and revised in recent years to advance New Markets objectives.

Advancing the New Markets Initiative

The Empowerment Zone/Enterprise Community (EZ/EC) program was created in 1993 to help revitalize the Nation's most distressed urban and rural areas. This program, administered by USDA in rural areas, provides tax incentives for businesses and flexible grants to communities in areas of high poverty. It got a boost in 1997 when Congress authorized creating a second round of EZ/EC's. This second round also allowed the program to reach rural places with more diverse economic problems, including places in the Great Plains experiencing outmigration and Indian reservations (which were excluded from the program originally). Beginning with the 1999 fiscal year appropriations cycle, this program's second round of EZ/EC's has been maintained through annual injections of new grant funding.

The Community Development Financial Institutions Fund (CDFI) is another building block of the New Markets initiative. CDFI attempts to revitalize distressed communities by enhancing the ability of selected financial organizations to extend credit and technical assistance to promote community development. This program has several components. The CDFI program assists private, for-profit and nonprofit, financial institutions (CDFI's) to provide capital and services to underserved people and communities. The Bank Enterprise Award (BEA) Program provides incentives for traditional financial institutions to invest in CDFI's. Other components include nonmonetary Presidential Awards for Excellence in Microenterprise Development and the Native American Lending Study and Action Plan. The CDFI Fund has grown over time, starting with $37 million in 1996 and rising to $96 million in 2000.

Because small business startups and expansions are important in the local development process, SBA is expected to play a key role in achieving New Markets objectives. Last year, SBA supplemented its existing programs with New Markets activities. For example, in September, SBA issued new regulations for its Small Business Investment Companies (SBIC) program to help direct more assistance to inner city and rural areas with low- and moderate-income (LMI) areas. SBIC's, which are licensed and regulated by SBA, are privately owned and managed investment firms that provide venture capital and start-up financing to small businesses. The new regulations provide a program of narrowly tailored regulatory and financial incentives to encourage investments in businesses located in LMI areas (or to firms with significant numbers of employees residing in LMI areas). The incentives are available to any SBIC making qualified LMI investments. The incentives fall into two categories. First SBA would allow SBIC's greater regulatory flexibility when structuring and making LMI investments. Second, SBA would make available a deferred-interest form of financing exclusively for the financing of LMI investments. The new financial incentives and flexibility are expected to spur growth in SBIC investments in underserved areas.

SBA is also providing new forms of nonfinancial assistance to small businesses in distressed areas. The BusinessLINC (Business Learning, Investment, Networking, and Collaboration) initiative, launched in December 1998, encompasses several component programs coordinated by SBA and by the Department of Treasury. These include SBA and Treasury mentoring programs, the BusinessLINC Leadership Coalition, and the HUBZone Empowerment Contracting program. Mentoring programs help identify compatible large business mentors for small businesses and provide other forms of technical advice. The BusinessLINC Leadership Coalition of experts works to improve large/small business relationships. The HUBZone program, created in 1998 legislation, targets Federal contracts to small businesses in "historically underutilized business zones."

Other recently created programs advance New Markets objectives. For example, SBA's One Stop Capital Shops (OSCS) provide small business services in Empowerment Zone communities. SBA's Microloan program makes loans to intermediaries who in turn make very small loans to entrepreneurs traditionally considered unbankable due to inexperience with credit, lack of assets, or the need for on-going technical assistance. The Appalachian Regional Commission began a new initiative in 1997 promoting entrepreneurship and the creation and growth of homegrown businesses. The Community Adjustment and Investment Program (CAIP) assists areas affected by the North American Free Trade Agreement (NAFTA). USDA's new BRAVO (Bringing Rural America Venture Opportunities) program promotes more business and public-private partnerships in distressed rural areas. The Brownfields National Initiative, begun in 1998 and jointly operated by EDA, HUD, SBA, and EPA (the Environmental Protection Agency), cleans up prime development land. The Telecommunications Act of 1996 created a universal service fund to help close the “digital divide” between the telecommunication haves and have-nots and provided discounted telecommunications services to schools, libraries, and health care providers, with the rate of discount depending on need and “high cost” factors. All of these relatively new programs particularly benefit disadvantaged communities.

The administration’s New Markets initiative has also invoked Federal regulatory powers and the President’s influence over public opinion to encourage banks, financial institutions, and large businesses to invest in underserved areas. The 1999 financial overhaul legislation (discussed earlier in this issue) applied the Community Reinvestment Act (CRA) to the banks and holding companies expanding into new areas of activity. The CRA requires banks to serve the credit needs of all communities from which they take deposits, including distressed areas. Not coincidentally, several banks, particularly those seeking Federal approval of mergers, have made major new commitments to extend credit to distressed areas. Increased efforts to enforce other Federal regulations, such as antitrust provisions, may also have encouraged some large businesses to make high-profile contributions to distressed communities. If the threat of regulatory action provided the stick, the President’s highly visible July and November 1999 New Markets tours of distressed communities provided the carrot to promote big business involvement in underserved areas. While on this tour, several significant public-private ventures in these places were announced as examples of new markets activities, including a proposal by Banc One Capital Markets and George K. Baum & Company to underwrite $1.5 billion in bonds to finance homes by Native Americans and Burger King’s plans to enter into a venture to buy products from a vegetable cooperative in rural Hermitage, Arkansas. Another New Markets tour is planned in early 2000.

The Livability Initiative

Also called the Livable Communities initiative, the Livability initiative addresses a wide array of noneconomic issues associated with development and quality of life. Two of these issues are particularly important from a rural development perspective: preservation of natural amenities and mitigation of sprawl-related problems.

The preservation of natural amenities follows from the notion of sustainable development, which argues that natural amenities must be preserved for rural development to be sustained, since much of the growth and development in rural areas in recent years derives from the attraction of rural scenic landscapes, clean air and water, and outdoor recreation. Although many rural areas possess valuable natural amenities, these tend to be greatest in the more remote rural areas and near mountains and water.

In contrast, sprawl mitigation tends to be of greatest concern in rural areas that are close to growing metropolitan areas. Attracted by the combination of metropolitan job opportunities, low land prices, and rural amenities, many people and businesses are choosing to reside adjacent to growing metropolitan areas. While this may be beneficial to the development of many rural areas, the typical sprawling form of development along major transportation arteries radiating from urban centers creates numerous problems for rural communities, including congested roads, crowded schools, and strained water and waste systems.

The administration’s Livability agenda contained proposals to address both of these issues. For example, the administration proposed a new State and local bonding authority for green space preservation (Better America Bonds), and its Land Legacy proposals emphasize land acquisition and conservation, including open space planning grants, low-interest loans for rural smart growth planning and development, and a proposed farmland protection program to help rural communities and farmers preserve their farmland and open spaces. To address sprawl problems, it proposed increased funding of public transportation and other transportation assistance to deal with congestion and first-time funding for the HUD Regional connections initiative to promote “smart growth” strategies across jurisdictional lines and a new grant program to help communities design new schools. The initiative also addresses other community quality-of-life issues—for example, it proposes creating a Regional Crime Data Sharing system.

Advancing the Livability Initiative

Progress has already been made in achieving some of the initiative's objectives. For example, one of the main objectives of amenity preservation was to acquire and conserve environmentally sensitive land. Until recently, only a small portion of the oil and gas royalty monies flowing into the Federal land and water acquisition fund were allowed to be spent on acquisitions, with the rest going to offset the budget deficit. However, last year Congress guaranteed that $900 million could be used for land acquisitions in FY2000, more than double the amount from prior years, and an additional $125 million will be provided annually for urban parks, with $150 million annually for conservation easements, and $1 billion annually for coastal conservation. Although technically a component of the Lands Legacy initatiative, this land acquisition and conservation is complemetary to the Livibility initiative and came about with strong support from the Clinton administration.

The Federal Government has also been using its regulatory powers to protect and enhance natural amenities on Federal lands. For example, EPA provided new guidelines for improving air quality in National Parks. The Interior Department issued stricter rules for pollution from mining on Federal lands and increased the level of protection for endangered species in several areas. The Forest Service continued its moratorium on road building and logging on 40 million roadless acres in National Forests. More generally, EPA has continued to push for reduced levels of smog nationwide—particularly in the eastern United States—and for reduced contamination of coastal waters, rivers, and the Great Lakes (see article on Regulatory Policy).

Many anti-sprawl, smart-growth objectives were advanced by the 1998 legislation of TEA-21 (Transportation Equity Act for the 21st Century), which authorized increased funding through 2003 for most surface transportation programs (for more details, see *RCaT*, Vol. 10, No. 1, pp. 30-35). In addition to a large increase in funding for urban mass transit, which may reduce some of the sprawl pressure on metro-adjacent rural areas, this act included an even larger (32-percent) increase in the main formula grant for rural public transit programs, plus an increase in the smaller Rural Transit Assistance Program.

TEA-21 also provided $120 million for a new Transportation and Community and System Preservation Pilot program, which combines research and grants to improve the efficiency of transportation systems, reduce environmental impacts, and lessen the need for costly, future public infrastructure investments, while ensuring efficient access to jobs, services, and trade centers. New planning provisions encourage greater rural local input into State decisions on how funds are allocated.

Other TEA-21 provisions advance community livability goals: for example, increased funding goes to bicycle and pedestrian walkways, recreational trails, scenic highways, and other transportation enhancements. In addition, TEA-21 establishes and funds a new State-operated air quality monitoring network, codifies timetables for meeting air quality standards, and provides $8.1 billion (over 6 years) for the Congestion Mitigation and Air Quality Improvement Program that helps State and local governments design and implement transit and traffic flow projects to help meet EPA air quality standards.

In addition to the new Transportation and Community and System Preservation Program, several other recent Federal initiatives promote sustained development through research, planning, and partnerships. For example, EPA's new Sustainable Development Challenge Grant Program encourages communities to develop partnerships to plan and develop flexible, locally based approaches linking environmental management and quality-of-life activities with sustainable economic development activities. EDA and the Federal Emergency Management Agency have formed a Hazard Mitigation Partnership to coordinate hazard mitigation programs and help individuals, businesses, and communities become more resistant to natural disasters. EDA has revised its planning guidelines to make them more inclusive and community-friendly. The new Rural Hospital Flexibility Program provides grants to States to develop their own plans for revitalizing rural hospitals and health care partnerships and networks. The American Heritage Rivers Project assists numerous communities along 14 designated rivers to plan and implement locally based sustainable development. In addition, the General Services Administration has established a livability office to look at ways GSA can work with communities that host government facilities to ensure that these facilities support, rather than undermine, local quality of life.

USDA's rural EZ/EC's and REAP's (Rural Economic Area Partnerships) both entail community-based strategic planning to devise development strategies to meet sustainable economic and community development needs. In addition, USDA's new Rural Community Development Initiative will provide grants to increase capacity-building among private and nonprofit community development organizations and low-income rural communities in the areas of housing, community facilities, and community and economic development. USDA's Rural Development field staff are managing a new USDA secretarial initiative: the "Livable Communities" project assisting two pilot communities that will devise their own plans to achieve their own Livability objectives. Rural Development has also helped form several regional compacts, such as in the Mississippi Delta and the Southwest border region, consisting of distressed communities that seek solutions to common problems, aided by technical assistance.

Other USDA initiatives also address livability objectives. For example, the Forest Service is leading an effort to devise a training curriculum for communities interested in applying green infrastructure techniques to community development—this will provide technical assistance to communities interested in developing greenways throughout their communities. The Rural Housing Service, in a joint effort with the Organizations Concerned about Rural Education coalition, recently began a partnership to help rural school districts finance education and facility improvements called the Rural Community Schools Rebuilding Program. USDA's "small farms" and "bio-based product " initiatives also aim at livability objectives.

Conclusion

People today expect more than just jobs from economic development. They want to live and work in communities with a decent quality of life. Many are attracted to rural areas because of the small-town lifestyle and natural rural landscape and environment, and they object to development that seriously erodes these rural amenities. Many also find it hard to reconcile the long-term economic improvements enjoyed by most Americans with the continued stagnation and poverty in distressed central cities, rural areas, and Indian reservations. This represents not only inequity but also inefficiency, as land and labor resources are being wasted that might otherwise contribute to sustaining national economic growth. The long-term solution is to better integrate these communities into the national economy. The New Markets and Livability initiatives seek to achieve these objectives.

The future of some of the initiatives' most ambitious proposals is still unknown, but recent changes in Federal programs and regulations have already furthered the initiatives' objectives. In just a few years, significant increases in funding have gone to EZ/EC's, CDFI's, public transit, universal service for advanced telecommunications, and Federal land acquisition and conservation programs. However, these initiatives are about more than dollars spent. They herald a new way of connecting strategic, bottom-up planning, public-private partnerships, and Federal assistance to achieve sustainable development. Some Federal programs are already making use of improved targeting to places with specific problems and better measuring of program outcomes. In addition, Federal regulatory actions are exerting greater leverage over private sector funds. These developments not only have the potential to enhance the goals of these initiatives, but may also help lay the groundwork for subsequent program improvements. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

Regulatory Policy Boosts Economic Competitiveness and Environmental Sustainability

The most important recent changes in regulations and their enforcement are aimed at improving the competitiveness of the economy and allowing development while improving or sustaining the quality of natural amenities and the environment.

Regulatory changes that receive attention here include those involving the economic competitiveness of transportation, telecommunications, and other industries critical to rural development. Also covered in some detail here are environmental and natural resource regulations, which are important for sustaining development in rural areas that rely on a clean environment and pristine natural amenities to attract development. This article also covers regulations touching some other issues, such as truck safety, welfare reform, and local government accounting requirements. Two of the most important regulatory changes involving economic competitiveness—the financial overhaul legislation and trade liberalization agreements—are covered elsewhere in this issue.

The Telecommunications Service Market Continues To Evolve

The first barriers to the Bell Companies providing long-distance service came down this past year when the Federal Communications Commission (FCC) granted a regional Bell, Bell Atlantic, permission to offer New York residents the company's long-distance service. The decision is not without controversy. The Justice Department had recommended postponing Bell Atlantic's entry into long-distance phone service. In receiving permission, Bell Atlantic agreed on further steps to open its local phone service to competition that the FCC believed would address, at least in part, the concerns of the Justice Department. AT&T and other long-distance providers also objected to the FCC decision, stating that Bell Atlantic had not gone far enough to allow them to compete in providing local phone service. What competition exists for local phone markets in New York has centered largely in New York City.

The next battle over local phone access will be in Texas where SBC has petitioned the FCC to judge their local phone markets open to competition and allow SBC to enter the long-distance market. The Justice Department has recommended against SBC, with more reservations than had been raised in the Bell Atlantic case. Congress may also attempt this year to allow the regional Bells access to the long-distance data market without the blessing of the FCC. As of this writing, a House bill to such effect had 144 cosponsors.

The debate over cable access shifts with the proposed merger of America Online (AOL) and Time Warner, Inc. Cable television's fiber optic pipelines can, with significant investment, be used for voice communication and very fast Internet service (approximately 100 times faster than current standard phone access) in addition to the traditional television fare. Cable television is viewed as a viable potential competitor to traditional phone companies in both voice and data (such as Internet) communication. The Telecommunications Act of 1996 left control of access in the hands of cable television companies. AOL, along with the regional Bells (US West, etc.) and MCI WorldCom, have been arguing for open access. AT&T and Time Warner, the country's two biggest cable providers, and other cable network owners argue against open access. AT&T wants to provide local phone service through its cable network. MCI WorldCom and the regional Bells want access so that they also can provide voice and data services through the networks.

The open-access proponents argue that since the law requires (eventual) access to local telephone company networks, the law should also require access by competitors to cable television networks. AT&T and Time Warner have argued that by opening up the networks too soon, no competition will develop because no one will be able to recoup their investments. With the purchase of Time Warner by AOL, the proponents of no access are increasingly likely to prevail in a fight that had shifted to Capitol Hill and local communities. Nevertheless, at the time of this writing, a bill in the House that would force AT&T and other cable television companies to open their networks to competing Internet providers had 28 cosponsors.

The debate over federally backed loans to expand rural television service was rejoined by the Senate Banking, Housing, and Urban Affairs Committee at the start of the new session. Under consideration is a $1.25 billion loan guarantee program aimed at delivering local stations' signals to outlying areas. The issue is sensitive because residents in sparsely populated regions often cannot receive broadcast signals from the nearest metropolitan area. Cable systems are required to rebroadcast, but often do not serve sparsely populated areas because of the cost of extending fiber optic lines. Direct-broadcast satellite services have recently acquired the right to rebroadcast, but argue that they need a bigger chunk of broadcast spectrum in order to rebroadcast local channels from small metropolitan areas. Satellite service providers argue that they are the most economically efficient operators to provide rebroadcast of local stations. Cable operators argue that any loan program favoring satellites would be discriminatory. They want government-backed loans to expand and improve their facilities in rural areas. The bill is expected to be forwarded out of committee before June. *[Peter Stenberg, 202-694-5366, stenberg@ers.usda.gov]*

Transportation Safety and Competitiveness Are Chief Concerns

The Motor Carrier Safety Improvement Act of 1999 (P.L. 106-159) places truck and bus safety issues within a newly formed Federal Motor Carrier Safety Administration. This agency, modeled after the Federal Aviation Administration, concentrates on improving safety in the trucking industry by reducing the number and severity of crashes involving large trucks. The new agency seeks to improve safety through more commercial motor vehicle and driver inspections and carrier compliance reviews, stronger enforcement activities, expedited completion of motor carrier rules, greater research into safety issues, and improved testing and recordkeeping of commercial driver's license holders. The law also provides for expanded sanctions against unsafe drivers and carriers, including the authority to revoke licenses of unsafe operators.

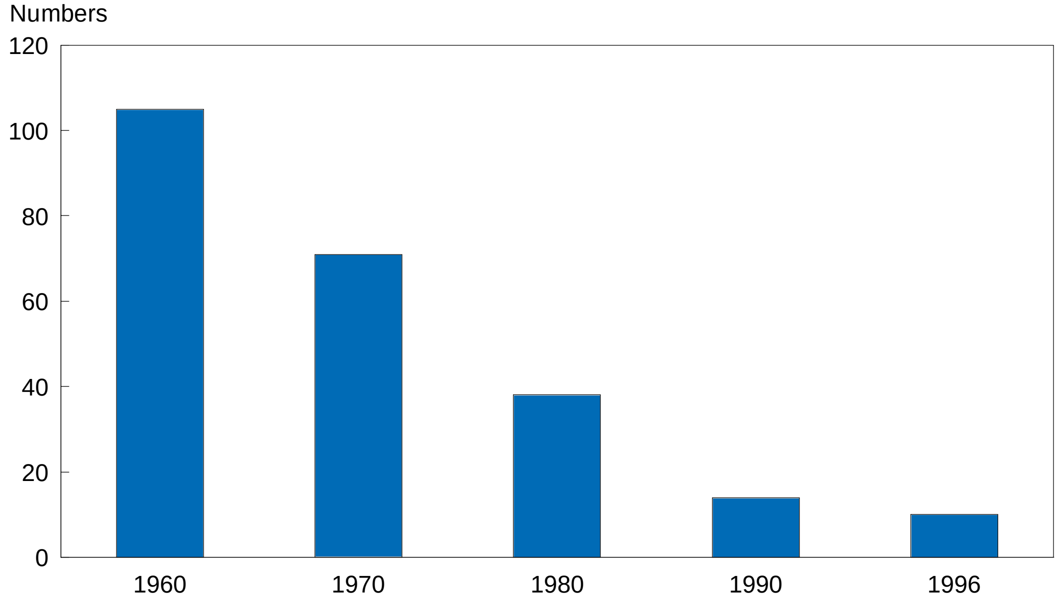
Safety remains a critical concern for the trucking industry. According to recent U.S. Department of Transportation estimates, more than 329,000 accidents involve motor vehicles and large trucks annually, resulting in more than 5,000 deaths. In recent years, safety concerns have heightened with passage of the North American Free Trade Agreement (NAFTA), which allows trucks from Canada and Mexico greater access to roads throughout the Nation, although most trucks from Mexico are currently prohibited from going beyond an 8-mile zone along the U.S./Mexico border.

Regulatory scrutiny of railroads has also increased as the railroad industry continues to consolidate (fig.1). In December 1999, Burlington Northern Santa Fe (BNSF), itself the product of a 1995 merger, proposed to merge with Canadian National Railway. If approved by Canadian authorities and the U.S. Surface Transportation Board (STB), the new railroad would be the largest in North America. This proposal, which comes amid a flurry of merger activity in the railroad industry, faces opposition from a variety of groups, including chemical manufacturers and individuals in western Canada who fear that rail competition will suffer.

In March 2000, the STB announced a 15-month moratorium on this and other major railroad mergers while it examines the situation and develops new merger rules. Although the long-term economic effects of consolidations in the rail freight industry remain unclear, disruptions of rail service due to railroad consolidations trouble agriculture and other rail-dependent industries as many bulk commodities and manufactured goods are moved by rail. Some have argued that the merger would trigger further consolidations in the rail industry, which may reduce competition in the shipment of bulk commodities, such as grain.

Railroads have also recently started to increase rates for hauling freight. Citing increases in the price of oil, a surging economy, shortages in track and equipment, and recent increases in trucking shipping rates, some of the Nation's largest railroads have raised freight rates as much as 4 percent this year, more than double the annual rate of increase

Figure 1
Number of major (Class I) freight railroads in the U.S., 1960-96
The number of railroads has decreased sharply since the early 1960's



Source: U.S. Department of Transportation.

in recent years. Some major shippers argue that service-related problems arising from recent merger activity should be given priority before rates are raised.

Rural air service has also come under increased regulatory scrutiny as airline competition has become an important issue. In 1999, the Department of Justice (DOJ) filed an antitrust lawsuit against American Airlines, the Nation's second largest airline, for allegedly monopolizing and attempting to monopolize airline passenger service to and from Dallas/Ft. Worth. The lawsuit charges that American sought to drive small, startup airlines, which are important in many rural areas, out of the Dallas/Ft. Worth airport, the Nation's third largest, by saturating their routes with additional flights and cutting fares and then re-establishing higher fares and reduced service once the low-cost carrier had left the market. If DOJ wins the case, air fares may fall as other low-cost carriers re-enter the Dallas/Ft. Worth market. This might also discourage other airlines considering anti-competitive practices that are potentially harmful to rural areas. *[Dennis Brown, 202-694-5338, dennisb@ers.usda.gov]*

Maintaining Competitiveness in Other Major Industries

In the last year, the Federal Government has taken or considered antitrust action to prevent several major industries from becoming too concentrated to be competitive. The most celebrated case involved Microsoft Corporation's dominance of the computer software industry. In November 1999, a judge of the U.S. District Court agreed with the Justice Department, ruling that Microsoft exercised monopoly power that hurt consumers and competitors. After Microsoft and the Justice Department failed to settle the case out of court, the Court ruled in the Spring of 2000 that Microsoft was in violation of antitrust law. As of this writing, the court's penalty for Microsoft is still to be decided, however, this represents an important move toward maintaining a competitive economy at a time when the economy is increasingly computer-based. It may also be particularly important to rural areas that are looking to computer- and telecommunications-based economic development.

Another court case involves the proposed merger of two large oil companies, British Petroleum Amoco and the Atlantic Richfield Corporation. In February 2000, the Federal

Trade Commission (FTC) was joined by the States of California, Washington, and Oregon in arguing against this merger before a Federal court. The FTC argued that this merger would give the new company effective control of the entire Alaskan oil production, which would allow it to charge monopoly prices in the Western region. Moreover, the FTC claimed that there is little other reason for the merger, since it would appear to produce no economic efficiencies. The outcome of this case could be significant for future antitrust cases, since the same FTC arguments might be applicable to other mergers in highly concentrated industries.

This point was underscored on February 17, 2000, when FTC Chairman Robert Pitofsky formally announced a toughening of the FTC approval process for mergers of companies that are direct competitors. With the annual number of mergers more than doubling since 1993, the FTC sees this policy change as necessary to assure the public that competition will not be sacrificed. The FTC previously penalized some companies for allegedly sabotaging the assets they planned to divest; the new FTC policy aims to prevent these anti-competitive practices from occurring in the first place. Under the new FTC guidelines, prior to approving mergers, the FTC will examine the supposed buyers of divested assets (businesses) to ensure that they can remain a viable source of competition in the industry after the merger.

Farm Credit Administration Focuses on Mission, Competitiveness Issues

In January 1999, the Farm Credit Administration (FCA)—the independent Federal agency that regulates the Farm Credit System (FCS)—issued new reporting requirements for FCS lenders on lending to young, beginning, and small (YBS) borrowers. Eligible borrowers include farmers, ranchers and producers or harvesters of aquatic products. The FCA changed its definitions of young, beginning, and small to be more consistent with those used by USDA and the National Commission on Small Farms. Young borrowers are not more than 35 years old. Small borrowers generate less than $250,000 in annual gross agricultural or aquatic sales. And beginning borrowers have not more than 10 years of relevant experience. FCS lenders must complete a questionnaire on their business activities with respect to YBS borrowers. FCA has also designated YBS activities as a special examination focus, and examiners will assess each institution’s program for furnishing sound credit and related services to these borrowers patterned after Community Reinvestment Act (CRA) exams conducted by commercial bank and thrift regulators.

In July 1998, the FCA’s board of directors adopted a philosophy statement on intrasystem competition that could lead to substantial changes in FCS structure and operations. In November 1998, the FCA published a proposed rule to allow eligible borrowers to obtain credit and financial services from FCS lenders of their choice regardless of the location of their residence or agricultural activity—effectively eliminating territorial restrictions on FCS lenders. After an extended comment period that exposed a deep division among FCS institutions and strong opposition from commercial banks, the FCA board decided instead to use its existing authority to grant national charters to FCS direct lender associations to remove geographic restrictions. The FCA is also considering allowing Production Credit Associations (which specialize in nonreal estate lending) and Federal Land Credit Associations (which specialize in real estate lending) to convert to Agricultural Credit Associations (which can make both real estate and nonreal estate loans) without merging with an existing association. These initiatives offer the potential of lowering the cost of credit and improving service for customers through enhanced competition, while allowing FCS lending associations greater risk management opportunities through geographic and product diversification.

EPA Acts To Improve Air Quality. . .

In April 1999, the Environmental Protection Agency (EPA) issued the final regional haze regulation to improve air quality in 156 national parks and wilderness areas across the country. (More than 80 of these areas are managed by the USDA Forest Service.) The program provides a framework by which States will work together to develop visibility improvement goals for each area and emission reduction strategies to meet these goals.

State plans must address certain large emission facilities, but they can also include other types of pollution sources, such as cars, trucks, and smaller “area” sources. State plans are due in the 2003-2008 timeframe. By implementing regional haze and other air quality strategies, the States are expected to improve air quality not just in parks and wilderness areas, but across broad regions of the country. These air quality improvements should benefit the health and well-being of rural communities, including those whose economies rely on park tourism, and enhance the experience of the more than 60 million visitors to these national parks and wilderness areas each year.

In November 1999, EPA sued seven of the Nation’s large utility companies for illegally polluting the air. EPA claimed that 32 coal-fired plants—plants that had been exempt from the Clean Air Act’s major new source review permitting requirements because of when they were built—had illegally upgraded without adding the required pollution controls. The affected plants are located in Alabama, Georgia, Illinois, Indiana, Kentucky, Mississippi, Ohio, Tennessee, and West Virginia. However, their pollution affects a broad area of the country, particularly the Eastern United States. EPA also filed an administrative order against the Tennessee Valley Authority for similar infractions.

In March 2000, a Federal appeals court ruled that EPA could go ahead with its rule to require 22 States (mostly in the East and Midwest) to reduce nitrogen oxide levels—a pollutant that contributes to smog. EPA finalized these rules in 1998, but they were in litigation until March 2000 when the DC Circuit of the Appeals Court upheld EPA’s statutory authority to make the rule change. In another effort to reduce regional air pollution, in November 1999, EPA responded to petitions from States to reduce air pollution from upwind States by requiring some 392 utilities and other facilities to reduce their emissions of smog-forming chemicals. As part of the rule, EPA finalized a new emissions trading system, similar to that used with acid rain, easing the financial burdens on some firms that would otherwise have difficulty meeting the smog requirements.

In October 1999, the President announced more restrictive rules for environmental reporting by firms handling relatively small amounts of certain toxic materials, including dioxin. Under the previous rules, firms could handle up to 25,000 pounds or use up to 10,000 pounds of the toxic chemicals annually without having to report their discharges. Most of the thresholds were lowered to 100 pounds, or lower, depending on the toxicity of the chemical. The rule covers air pollution from incinerators as well as other forms of pollution involving toxic chemicals. This provides communities with better information about the environmental hazards associated with local industry and provides industry with an incentive to reduce the use of these toxic chemicals. It should particularly benefit communities with significant industrial activity. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

. . . and Water Quality

Since the passage of the Clean Water Act over a quarter century ago, great progress has been made, but about 40 percent of the American waterways—which include more than 20,000 rivers, lakes, and estuaries—still are not fit for fishing and swimming. Many of these polluted water bodies identified by States are highly valued fisheries. An overwhelming majority of Americans—218 million—still live within 10 miles of a polluted water body. Further improvements in water quality will be more demanding, because pollutants do not come just through pipes—point sources. Actually, point pollution discharges account for only about 10 percent of polluted waters, while the remaining 90 percent are caused by polluted runoff from farms, feedlots, forestry operations, construction sites, urban streets, and suburban lawns.

In August 1999, EPA proposed to revise procedures for the Total Maximum Daily Load (TMDL) program, the National Pollutant Discharge Elimination System (NPDES), and the Water Quality Standards (WQS) Program in an effort to speed up the cleaning of American waterways. A TMDL is a “pollution-budget” for an impaired water body. It sets limits on the amount of pollutants that a water body can receive without violating water quality standards adopted by States. Under section 303(d) of the Clean Water Act, States, territories, and authorized tribes are responsible for developing lists of priority projects based on TMDL's of their impaired or threatened water bodies. Public participation will be required in the choice of methodology for identifying the impaired water bodies and priorities. The proposed changes provide clear direction and promote consistency across States, territories, and authorized tribes in developing priority lists and schedules. Lists must classify high-, medium-, and low-priority water bodies according to the severity of the pollution and the uses of the water body.

While States will have considerable flexibility in determining how to allocate those needed reductions in the identified pollution loads, they must give “reasonable assurances” in their implementation plans that on-the-ground actions will actually occur. Lists must also contain schedules for establishing TMDL's for each water body within 15 years. High priority is to be given to sources of drinking water or waters that sustain endangered species; for these, TMDL's must be established within 5 years. EPA will establish TMDL's if the body of water involves interstate or boundary waters, if a State asks EPA for help, or if EPA determines that the State lacks the will to complete the task.

A recent landmark decision in a Federal court upheld EPA's authority to regulate and designate certain sources of polluted runoff as point sources if critical for meeting water quality standards. Instead of individual water bodies, the entire watershed will be the focus of this new approach.

In the Great Lakes region, lakeside rural communities are already benefiting from EPA-supported regional approaches to reduce pollution in the Great Lakes, and recent EPA proposals promise further improvements. In 1995, EPA and the Great Lakes States agreed to water quality standards that would substantially reduce amounts of 29 pollutants, including bioaccumulative chemicals, and end the so-called mixing zones. Mixing zones are areas in the lakes where these chemicals mix with lake water and dilute to safe levels before leaving the mixing zones. Iron and steel plants, which according to the environmentalists, are some of the larger contributors of bioaccumulative chemical pollutants in the Great Lakes, challenged the 1995 water quality standards in Federal court. In 1997, the U.S Court of Appeals in the District of Columbia upheld most of the provisions of the 1995 water quality standards agreement, but it sent the mixing zone prohibition back to the EPA for further review so that it would not be too costly for industries to comply.

In September 1999, EPA proposed to sharply reduce the levels of bioaccumulative toxic chemicals—such as mercury, polychlorinated biphenyls (PCB's), dioxin, chlordane, DDT, and mirex—in the Great Lakes. After review, EPA concluded that the assumption behind the mixing zone policy—that toxic chemicals dilute to safe levels before leaving the mixing zone—is unsound. The Governors of Indiana, Minnesota, and Wisconsin have already eliminated the mixing zones in their States. EPA's new proposal will prohibit dumping of chemicals in the mixing zones in the remainder of the Great Lakes States—Illinois, New York, Ohio, and Pennsylvania. It also aims to reduce the discharge of mercury through outfall pipes by 90 percent. If ratified, these proposed regulations would eliminate new discharges of the listed chemicals into mixing zones, and phase out the existing mixing zones over the next 10 years. *[Faqir Bagi, 202-694-5337, fsbagi@ers.usda.gov]*

Efforts To Control Public Land Use and Natural Resources

Rules embedded in the omnibus funding bill, P.L. 106-113, covering the Interior Department will help clarify how Federal lands can be mined and grazed. For example, it may become more difficult for some large mines to begin operations on Federal lands following a 1997 Interior decision to enforce language in the General Mining Law of 1872 that restricts the size of mill sites to no more than 5 acres for every 20 acres that are mined. This old provision limiting the potential environmental damage arising from some types of mining (such as strip mines) only took concrete form in March 1999 when the Department blocked a permit for a proposed gold mine on public land. To allay fears that the rule might shut down many existing mines, P.L. 106-113 made it applicable only to mine applications submitted after the 1997 Interior ruling.

The same legislation contained provisions that extended, for the second year in a row, the moratorium on applying a new formula for determining royalties received from oil and gas obtained from Federal lands. The latest extension prevented the formula from taking effect until March 15, 2000. The new formula would add over $66 million per year for natural resource spending by Federal, State, and local governments.

The omnibus legislation also allows expiring grazing permits to continue to be automatically renewed for the standard 10-year period. Interior had wanted to restrict renewed permits to 1 year while waiting for environmental impact studies to be completed. The new law allows Interior to cancel or change grazing permits upon renewal, but only if such changes are deemed appropriate following the completion of environmental impact studies.

On September 30, 1999, USDA Secretary Glickman proposed new rules for managing the National Forests, moving from bureaucratic approaches toward a more inclusive, dynamic, science-based, problem-solving approach. The new forest plans will (1) involve the public earlier; (2) ensure that the environment is protected while fulfilling national economic, social, and leisure needs; (3) heighten the use of science in planning and project decisions; and (4) make forest planning responsive to new information and opportunities.

On October 13, 1999, President Clinton announced a Forest Service proposal to permanently protect at least 40 million acres, or two-thirds, of roadless National Forest lands. Future roadbuilding would be prohibited in protected areas, and logging and mining might also be prohibited. Although most States have some National Forest land, among the States most affected are Alaska, Idaho, Oregon, Montana, and California.

In March 2000, the Army Corps of Engineers proposed to change its rules to protect more of the Nation's wetlands. The Corps would preclude most construction projects from qualifying for the Nationwide Permit 26 if they involve more than one-half acre. Permit 26 allows small areas of wetlands (up to 3 acres) to be developed without the careful scrutiny of project-specific permits. The proposed change should therefore make it more difficult to develop wetlands *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

Other Changes of Note

The Department of Housing and Urban Development (HUD) proposed new rules in March 2000 that would require two important housing agencies—Fannie Mae and Freddie Mac—to be more active in providing a secondary market for loans to minority groups, such as African Americans and Hispanics. The new rule would require half or more of each agency's loan purchases to be for low-to-moderate income families. The new rules follow a HUD examination of how the two agencies, which provide a secondary market for home mortgages, assess credit for members of various minority groups.

In April 1999, President Clinton announced a new regulation giving States additional flexibility in their efforts to move people from welfare to work. The new regulations give States more discretion to use Federal money for child care, transportation, and job retention services.

In May 1999, the Supreme Court ruled that States should not pay higher welfare benefits to long-time residents than to newly arrived residents. The ruling concerned a California law that limited benefits for newcomers, but it applies to similar approaches used in 14 other States. This ruling should help welfare residents that move to work in other States but end up on welfare. ERS research has shown that many of the rural poor migrate from place to place, and hence many may benefit from the new rule.

In June 1999, the Government Accounting Standards Board (GASB) set a new rule that may require many cities to disclose for the first time in their annual reports the full cost of their infrastructure and service provision. The new rule applies only where States require municipalities to comply with GASB rules. It also applies only to municipalities spending more than $10 million per year, so many small towns in rural areas may be exempt. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

Appendix table—Rural share of selected programs, fiscal year 1998

Agency[1] and program	1998 funding[2]	Nonmetro counties	Rural States[3]
	Billions of dollars	Percent	
Share of 1998 U.S. population	NA	20.2	11.4
General assistance:			
HUD State/small cities community development block grants (CDBG)	1.181	——	24.3
EDA adjustment assistance:			
Planning support	.015	56.7	28.0
Technical assistance	.005	23.1	14.4
Special economic development and adjustment assistance[4]	.094	38.1	41.4
FEMA disaster relief	1.891	——	12.3
USDA/CSREES extension activities	.380	——	26.6
BIA Native American assistance programs[5]	.070	——	54.5
Infrastructure assistance:			
USDA/RUS programs—			
Rural water and waste disposal grants	.456	76.4	27.1
Rural water and waste disposal direct loans	.756	68.9	31.0
Rural water and waste guaranteed loans	.015	54.7	48.6
Rural electrification loans and loan guarantees[6]	.960	65.3	38.3
Rural telecommunication loans and loan guarantees[6]	.565	80.4	22.4
Distance learning and medical link grants	NA	NA	NA
USDA/RHS programs—			
Rural community facilities direct loans	.203	76.0	23.3
Rural community facilities loan guarantees	.065	73.3	22.6
DOT highway planning and construction grants	17.666	33.4	17.6
DOT airport improvement grants	1.521	14.7	22.2
DOT nonurban public transportation	.150	——	27.1
EPA clean water and drinking water State revolving funds	1.280	——	13.4
EDA public works grants	.096	46.5	21.2

See notes at end of table.

—Continued

Appendix table—Rural share of selected programs, fiscal year 1998—Continued

Agency[1] and program	1998 funding[2]	Nonmetro counties	Rural States[3]
	Billions of dollars	Percent	
Business assistance:			
SBA small business loan guarantees—7(a)	6.438	15.7	9.5
SBA certified development loan company guarantees (section 504)	1.783	14.0	10.4
SBA disaster loans	0.615	34.5	14.6
USDA/RBS programs—			
Business and industry loan guarantees	1.067	60.1	23.1
Intermediary relending program loan guarantees	.034	76.9	48.5
Rural Business Enterprise Grants (RBEG)	.036	69.2	29.9
EDA special economic development and adjustment assistance[7]	.094	38.1	41.4
Housing assistance:			
USDA/RHS single family housing (section 502)[8]			
Direct loans	1.061	50.1	24.1
Guaranteed loans	2.964	44.1	22.2
USDA/RHS multifamily housing (section 515)	.056	68.8	20.3
USDA/RHS rural rental assistance payments	.535	93.7	30.9
VA guaranteed and insured housing loans	11.732	10.4	11.3
HUD/FHA single-family mortgage insurance	83.406	6.8	9.3
HUD Public and Indian housing	2.172	13.1	8.5
HUD low income housing assistance (section 8)	20.965	12.4	9.3
HUD home investment in affordable housing	1.247	11.8	11.4

——— = Data not accurate at the county level.
NA=Not applicable, or data not available.
[1]HUD=U.S. Department of Housing and Urban Development; EDA=Economic Development Administration (U.S. Department of Commerce); FEMA=Federal Emergency Management Agency; USDA=U.S. Department of Agriculture; CSREES=Cooperative State Research, Education, and Extension Service; RBS=Rural Business-Cooperative Service; RUS=Rural Utilities Service; RHS=Rural Housing Service; BIA=Bureau of Indian Affairs (U.S. Department of the Interior); DOT=U.S. Department of Transportation; EPA=Environmental Protection Agency; SBA=Small Business Administration; FHA=Federal Housing Administration; VA=U.S. Department of Veterans Affairs.
[2]Dollar amounts are for the U.S. total (includes both metro and nonmetro) for fiscal year 1998. The data come from the Bureau of the Census, and these totals may differ from those cited from other sources.
[3]Rural States are defined in Appendix B.
[4]Includes economic and defense adjustment.
[5]Census data for this assistance accounted for less than half of the total funding for fiscal year 1998 as reported in the Budget documents.
[6]Federal Funds data covering RUS electric and telephone loans only track funds to the county where central offices are located. The services provided by these programs often cover multicounty areas; hence, these data probably understate the extent to which nonmetro counties benefit from the programs.
[7]The percentages reported here refer to the entire special economic development and adjustment assistance program, which includes both economic adjustment and defense adjustment (this program was also reported earlier under general business assistance).
[8]Data for this program were provided by RBS.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Data Sources

Federal Funds Data. The principal data source we use to indicate geographic dispersion of program funding is the Consolidated Federal Funds Reports data from the U.S. Department of Commerce, Bureau of the Census. We usually refer to these data as the Federal Funds data. The Census Bureau collects these data annually from each Federal department or agency. We aggregated the latest available data (fiscal year 1998) to the county, State, region, and national levels for each program. (Unless otherwise specified, references to years are fiscal years.) We have also computed per capita estimates by type of nonmetro county and type of State (the typologies are explained later in this appendix.) These per capita estimates form the basis for our information, indicating the types of rural places that are particularly affected by each program.

The Census data for 1998 covered 1,168 individual programs, but not all of these programs had reliable data at the county level. Each program has individual characteristics that affect the way the data show geographic patterns. For example, funds for many programs go directly to State capitals or regional centers that redistribute the money or program benefits to surrounding areas. Examples include block grant programs and some procurement programs that involve a substantial degree of subcontracting. Census screens the data to identify such programs, and we have added our own screening, which separates out those programs that allocate 25 percent or more of their funds to State capitals. We ended up with 821 programs that we believe are fairly accurate to the county level for 1998. For the screened-out programs, we believe it is only meaningful to indicate geographic variations among States but not among counties. Thus, for some of the programs, we provide county maps and statistics, while for others we rely on State maps and statistics. Appendix table 1 lists the programs covered in this report, including the percentage of funds going to nonmetro counties (for programs deemed accurate to the county level) and the percentage of funds going to rural States (for all programs, including programs not deemed accurate to the county level). Rural States are defined later in this article where we discuss ERS's State types.

The benefits of Federal programs do not all go to the places that receive funds. For example, money spent on national parks benefits all who visit the parks and not just those who live nearby. USDA's money going to county extension offices may be expected to provide services to surrounding multicounty areas. Similarly, rural electric loans go to borrowers who may be located in one county but provide electric service to a much wider, multicounty area. Such spillover benefits are present in almost all Federal programs and are not reflected in the Federal Funds data. In addition, different programs affect communities in different ways and have different multiplier effects on local income, employment, and community well-being. Thus, even if the reported funding dispersion is considered to be an accurate depiction of where the funds are spent, care is required when interpreting the data as program effects.

Federal Funds data may represent either actual program expenditures or obligations, depending on the form of the data provided to Census. Direct loans and loan guarantees are reported according to the volume of loans obligated, and do not take into account interest receipts or principal payments. Consequently, these data do not always correspond to program totals reported in government budget documents, such as budget authority, outlays, or obligations (see definitions).

ERS' Federal Funds Data—sorted by type of county and State and used to produce tables, charts, and maps for this publication—are available for sale on CD-Rom, as one of ERS's Standard Data Products. These data are also available on the ERS web site. *[Faqir Singh Bagi, 202-694-5337, fsbagi@ers.usda.gov; Samuel Calhoun, 202-694-5339, scalhoun@ers.usda.gov; and Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*

Employment data. Data on nonmetro employment and unemployment reported in this issue come from four sources. The monthly Current Population Survey (CPS), conducted by the Bureau of the Census for the Bureau of Labor Statistics, U.S. Department of Labor, provides detailed information on the labor force, employment, unemployment, and demographic characteristics of the metro and nonmetro population. CPS derives estimates based on interviews of a national sample of about 47,000 households that are representative of the U.S. civilian noninstitutional population 16 years of age and over. Labor force information is based on respondents' activity during 1 week each month.

BLS county-level employment data, the Local Area Unemployment Statistics (LAUS), are taken from unemployment insurance claims and State surveys of established payrolls which are then benchmarked to State totals from the CPS. The BLS data series provides monthly estimates of labor force, employment, and unemployment for individual counties.

BEA employment data, unlike the household data collected by the CPS and CLS, provide establishment data on the number of jobs rather than the number of workers. The BEA data are taken primarily from administrative reports filed by employers covered under unemployment insurance laws and from information from the Internal Revenue Service and the Social Security Administration. Thus, jobs and earnings for these jobs are counted at the place of work and are based on a virtual universal count rather than a sample. The BEA data provide detailed information on the number of jobs and amount of earnings by industry at the county level. A shortcoming of the BEA data is the 2-year lag between when they are collected and when they are available for analysis.

The U.S. Bureau of the Census publishes an annual series, the County Business Patterns, that provides estimates of employment, establishments, and payroll by industry for each U.S. county. These data are the most comprehensive source of information on geographic patterns of employment for detailed industries. The Census Bureau does not publish data that could disclose information about the operations of individual companies or establishments. To account for these proprietary data, ERS uses an enhanced County Business Patterns file (acquired from a private vendor) that imputes values for the suppressed data. Employees totally exempt from the Federal Insurance Contribution Act (farm operators and other self-employed persons, hired farm workers, most government employees, railroad workers, and domestic service workers) are not counted by County Business Patterns.

Each of these data sets has its advantages and disadvantages. The CPS furnishes detailed employment, unemployment, and demographic data for metro and nonmetro portions of the Nation. The LAUS provides less detailed employment data than CPS, but offers very current employment and unemployment information at the county level. The BEA provides estimates of the number of jobs and earnings by industry for individual county areas, while the County Business Patterns data provide detailed industry information by county. While these data sources are likely to provide different estimates of employment conditions at any point in time, they generally indicate similar trends over time.

Textile and apparel export and import data. The source of official U.S. trade data is the Bureau of the Census. Data published by the Bureau of the Census are gathered by the Customs Service based on exporters' and importers' declarations. The data used in this article are summations of Census data on individual products published by the Department of Commerce's Office of Textiles and Apparel.

Trade assistance program data. Data on the Trade Adjustment Assistance Program certifications are from Employment and Training Administration, U.S. Department of Labor. Data are for certifications dated January 1994-September 1999, and the data were prepared by ETA on September 21, 1999. Data on the NAFTA-Transitional Adjustment Assistance Program certifications are from Employment and Training Administration, U.S. Department of Labor. Data are for certifications dated January 1994-January 1999, and the data were prepared by ETA on January 29, 1999. Because the certification process takes time, and also because there are amendments and reconsiderations to applications, the number of certifications is dynamic. As of April 14, 2000, Department of Labor issued certifications for 6,593 worker groups under TAA, and 1,433 worker groups under NAFTA-TAA.

Budget Data. We obtained information on regulatory changes and recent changes in program funding levels, such as the level and change in funding from 1999 to 2000, from various sources, including *Congressional Quarterly Weekly Report*, the President's Fiscal Year 2001 Budget, the 2001 budget summaries provided by major government agencies, congressional legislation, conference reports, and legislative summaries, and from the most recent Catalogue of Federal Domestic Assistance. In some cases, we contacted budget officials by phone to obtain information.

Population Data. Per capita funding amounts were estimated using 1998 county population estimates from the Bureau of the Census.

Definitions

County Typologies. Classification systems are developed and periodically revised by ERS to group counties and States by economic and policy-relevant characteristics. The county typology codes used in this issue are those described in Peggy J. Cook and Karen L. Mizer, *The Revised ERS County Typology: An Overview*, RDRR-89, U.S. Department of Agriculture, Economic Research Service, Dec. 1994. The State typology codes were first developed in Elliot J. Dubin, *Geographic Distribution of Federal Funds in 1985*, Staff Report AGES89-7, U.S. Department of Agriculture, Economic Research Service, March 1989, and were revised for the 1996 Federal Programs issue of *RCaT*.

County Economic Types (mutually exclusive; a county may fall into only one economic type):

Farming-dependent—Farming contributed a weighted annual average of 20 percent or more of total labor and proprietor income over 1987-89.

Mining-dependent—Mining contributed a weighted annual average of 15 percent or more of total labor and proprietor income over 1987-89.

Manufacturing-dependent—Manufacturing contributed a weighted annual average of 30 percent or more of total labor and proprietor income over 1987-89.

Government-dependent—Federal, State, and local government activities contributed a weighted annual average of 25 percent or more of total labor and proprietor income over 1987-89.

Service-dependent—Service activities (private and personal services, agricultural services, wholesale and retail trade, finance and insurance, real estate, transportation, and public utilities) contributed a weighted annual average of 50 percent or more of total labor and proprietor income over 1987-89.

Nonspecialized—Counties not classified as a specialized economic type over 1987-89.

County Policy Types (overlapping; a county may fall into any number of these types):

Retirement-destination—The population age 60 years and older in 1990 increased by 15 percent or more during 1980-90 through inmovement of people.

Federal lands—Federally owned lands made up 30 percent or more of a county's land in 1987.

Commuting—Workers age 16 and over commuting to jobs outside their county of residence were 40 percent or more of all the county's workers in 1990.

Persistent-poverty—Persons with poverty-level income in the preceding year were 20 percent or more of total population in each of 4 years: 1960, 1970, 1980, and 1990.

Transfer-dependent—Income from transfer payments contributed a weighted annual average of 25 percent or more of total personal income over 1987-89.

State Types (the first three types are mutually exclusive—a State may fall into only one category; the remainder are overlapping)

Because many Federal programs do not have accurate county-level data, we developed a State typology to assist in differentiating among types of States and their funding levels. First, we categorized States into three groups (rural, urban, and other) based on the percentage of a State's population residing in urban parts of metro areas. We defined four other types of States: farming-dependent, persistent-poverty, retirement-destination, and Federal lands. In each case, we used the same kinds of measures that were used to construct ERS's county typologies. However, the cutoffs were lowered because States have more internal socioeconomic diversity than most counties.

ERS's State Types

Rural—In 1993, 45 percent or less of the State's population resided in urban portions of metro areas. These States include Alaska, Arkansas, Idaho, Iowa, Kentucky, Maine, Mississippi, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, South Dakota, Vermont, West Virginia, and Wyoming.

Urban—In 1993, 70 percent or more of the State's population resided in urban portions of metro areas. These States include Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Rhode Island, Texas, and Utah.

Other (neither urban nor rural)—More than 45 percent but less than 70 percent of the State's population in 1993 resided in urban portions of metro areas. These States include Alabama, Georgia, Indiana, Kansas, Louisiana, Michigan, Minnesota, Missouri, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Virginia, Washington, and Wisconsin.

Farming-dependent—In 1991-93, 4 percent or more of total labor and proprietor income came from farm labor and proprietor income. These States include Arkansas, Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

Persistent-poverty—Fifteen percent or more of a State's persons had income below poverty in 1960, 1970, 1980, and 1990. These States include Alabama, Alaska, Arkansas, District of Columbia, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, South Carolina, South Dakota, Tennessee, and West Virginia.

Retirement-destination—A State's aged (over 60) population in 1990 increased by 5 percent or more due to net inmigration from 1980 to 1990. These States include Arizona, Florida, Hawaii, Idaho, Nevada, New Mexico, North Carolina, Oregon, South Carolina, Utah, and Washington.

Federal lands—The Federal Government owns 28 percent or more of total land in the State. These States include Alaska, Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

These State types were illustrated in figures 1-5 of the 1996 Federal Programs *RCaT*.

Regions

Census Regions—We used the Census-defined regions as follows:

Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

In most cases, we used only the nonmetro portion of these regions when referring to county-level data variations.

Other Definitions

Metro and Nonmetro Areas

Metro areas. Metropolitan Statistical Areas (MSA's), as defined by the Office of Management and Budget, include core counties containing a city of 50,000 or more people or have an urbanized area of 50,000 or more and a total area population of at least 100,000. Additional contiguous counties are included in the MSA if they are economically integrated with the core county or counties. For most data sources, these designations are based on population and commuting data from the 1990 Census of Population. The Current Population Survey data through 1993 categorize counties as metro and nonmetro based on population and commuting data from the 1980 Census. Throughout *Rural Conditions and Trends*, "urban" and "metro" have been used interchangeably to refer to people and places within MSA's.

Nonmetro areas. These are counties outside metro area boundaries. In *Rural Conditions and Trends*, "rural" and "nonmetro" are used interchangeably to refer to people and places outside of MSA's.

Rural-Urban Continuum County Codes

Classification system developed by ERS to group counties by the size of their urban population and the adjacency to metropolitan areas. (See Margaret A. Butler and Calvin L. Beale, *Rural-Urban Continuum Codes for Metro and Nonmetro Counties, 1993*, AGES 9428, U.S. Department of Agriculture, Economic Research Service, Sept. 1994).

Metro counties—

Core: Central counties of metro areas of 1 million population or more.

Fringe: Fringe counties of metro areas of 1 million population or more.

Medium: Counties in metro areas of 250,000 to 1 million population.

Small: Counties in metro areas of less than 250,000 population.

Nonmetro counties—-

Urban: Urban population of 20,000 or more.

Less urban: Urban population of 2,500 to 19,999.

Rural: Completely rural or less than 2,500 urban population.

Nonmetro adjacent counties—

Nonmetro counties physically adjacent to one or more metro areas and having at least 2 percent of the employment labor force in the county commuting to the central metro county. Nonmetro counties that do not meet these conditions are nonadjacent.

Budgetary Terms

Budget authority. The authority becoming available during the year to enter into obligations that will result in immediate or future outlays of government funds. In some cases, budget authority can be carried over to following years. It can take the form of appropriations, which permit obligations to be incurred and payments to be made, or authority to borrow, or authority to contract in advance of separate appropriations. Supplemental appropriations provide budget authority when the need for funds is too urgent to be postponed until the next annual appropriations act.

Obligations incurred. Once budget authority is enacted, Government agencies may incur obligations to make payments. These include current liabilities for salaries, wages, and interests; contracts for purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land. In this report, when reporting obligations for credit programs we report the total value of the loans obligated or guaranteed.

Outlays. This is the measure of government spending. Outlays are payments to liquidate obligations (other than repayment of debt), net of refunds and offsetting collections.

Direct loan. This is the disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment, with or without interest.

Loan guarantee. This is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender.

Fiscal year. A fiscal year is the U.S. Government's accounting period. It begins October 1 and ends September 30, and is designated by the calendar year in which it ends.

Industries

Textiles and Apparel—In the article on trade liberalization, "textiles" comprise a vast array of processed and semi-processed products. These include yarn, thread, fabric, and even home furnishings and floor coverings, such as blankets, curtains, and rugs. In contrast, "apparel" items include tops, bottoms, suits, and sweaters, as well as other items normally considered as clothing. These items are measured in "raw fiber equivalent" units, which estimate the actual poundage of raw fiber contained in each product. This allows meaningful comparisons between and among different fibers and product categories.

Food processing—The Standard Industrial Classification group Food and Kindred Products includes establishments manufacturing or processing foods and beverages for human consumption, including certain related products such as ice, chewing gum, vegetable and animal fats and oils, and prepared feeds for animals and fowls. Chemical sweeteners are not included. The industry groups are: meat products; dairy products; canned, frozen, and preserved fruits, vegetables; grain mill products; bakery products; sugar and confectionery products; fats and oils; beverages; and miscellaneous food preparations and kindred.

Tobacco products—The Standard Industrial Classification group Tobacco Products includes establishments engaged in manufacturing cigarettes, cigars, smoking and chewing tobacco, snuff, and reconstituted tobacco, and in stemming and redrying tobacco. Included is the manufacture of nontobacco cigarettes, but not included is the manufacture of insecticides from tobacco byproducts. The industry groups are: cigarettes; cigars; chewing and smoking tobacco and snuff; and tobacco stemming and redrying.